6 YEARS AFTER THE PARIS TREATY: THE ROLE OF FINANCE

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Making banking and insurance fit for the EU's climate targets

The European Union is firmly committed to the goals of the Paris Agreement (COP 21 Paris Treaty). The European Green Deal lays out an ambitious project to make the EU climate neutral by 2050, supporting green jobs, green growth and green investment.

The transition to a sustainable economy will require massive investments, both by the private and the public sector. And an important part of the funds needed to finance this transition will need to come from the financial sector.

Bank loans in the EU account for the highest share of external finance of EU companies in all different sectors, be they large companies, or SMEs. To provide adequate funding to finance the transition while at the same time ensuring that both banks and the system as a whole stay resilient, banks will need to identify, measure and manage sustainability risks in an appropriate way. This will require, inter alia, that they fully and timely integrate those risks in their day-to-day risk management.

In the area of bank regulation, the EU has been prompt to act in this regard. In 2019, it introduced disclosure requirements in relation to ESG risks and mandated the European Banking Authority (EBA) to make recommendations on possible changes to the capital requirements.

The banking package adopted by the Commission last October took a further step in implementing the EU Sustainable Finance Strategy by introducing specific requirements and incentives for banks to implement a systematic and consistent management of ESG risks, and it gives the necessary tools for supervisors to enforce these requirements.

This includes regular climate stress testing by both supervisors and banks. The package also explicitly requires supervisors to assess ESG risks that the banks they supervise are exposed to. Through this process, supervisors will need to evaluate whether banks manage those risk in an appropriate manner, and to impose additional supervisory measures on individual banks if that is not the case.

In the transition to a green economy, the insurance sector will also play an important role. Like the banking sector, insurers are an important source of funding for private investments. The sector as a whole holds more than € 10 trillion in assets.

As for the banking sector, the prudential rules need to make sure that the insurance sector takes into account sustainability factors in their risk management.

With this objective in mind, the Commission amended the technical rules for insurers. Sustainability risks will have to be taken into account in risk management as well as in the investment and underwriting process. The new rules will apply as of August this year.

In addition, the Commission made a proposal for amending the Solvency II Directive.

Under the proposal, insurers would be required to conducts long-term climate scenario analysis in addition to the current risk management rules.

The European Green Deal also called for an assessment of the suitability of the existing capital requirements for green assets. While it is still too early for conclusions, EIOPA should continue work on sustainable and harmful investments. We need to ensure both strict management of ESG risks and no undue barriers to green investments.

Beyond their role as investors, insurers also provide coverage against the risks that a temperature increase by 1.5 degrees will cause. The latter is also reflected in the taxonomy, where insurance can qualify as an activity that enables climate change adaptation.

Climate change makes it even more important that the insurance sector continues to provide risk coverage. However, increasing insurance claims will also lead to an increase in risk-based insurance premiums. Finding approaches to facilitate the supply of affordable insurance solutions is a very complex matter. Nevertheless, we want to kick off discussions with a broad range of stakeholders within a series of "Climate Resilience Dialogues" to produce EU-level recommendations.

All these measures taken on the regulatory side will ensure that the banking and insurance sector remain robust to support the transition and the EU in meeting its commitment to the Paris Agreement.

NIKHIL RATHI
Chief Executive -
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ESG – Everyone says they're Great...

When I think about the fast-evolving world of Environmental, Social and Governance ("ESG") finance, the quote "if you're not confused, you're not paying attention" springs to mind. It seems the more we learn about ESG in finance, the more challenges we find. The term ESG originated over 15 years ago when a UN-sponsored study described the benefits of integrating financially material ESG considerations into investment decision making. Today, however, ESG is about more than just risk management. It now encompasses a broad spectrum of objectives and strategies that variously consider, promote or pursue ESG characteristics, themes or outcomes.

As the field expands, even identifying a clear objective is no easy feat. The terms "ESG", "sustainable", "responsible" and "impact" are used interchangeably and often loosely. Indeed, the confusion around terminology spreads to the variety of strategies directed towards achieving these goals; ranging from "negative screening" to "community investing", and everything in between. And even where a clear objective has been communicated, it is not always obvious that it is being met. Indeed, in a 2020 study by Barclay's, analysts combed through two decades of funds data to conclude that the holdings and exposures of ESG funds were often not so different from those of conventional funds.

To make matters worse, investment firms often don't have access to the tools they need to deliver their strategies. There is a lack of reliable and high-quality ESG-related information from the real economy – let alone consensus on how to demonstrate performance, and especially "real-world" impact. In the absence of clear reporting standards, we see companies cherry-picking from voluntary frameworks. And there is often a disconnect between their ESG disclosures and their financial statements.

As a result, investors have become increasingly reliant on ESG data and rating providers. But how are these providers filling data gaps? And how should an investor interpret an ESG rating that aims to combine indicators of performance on wide-ranging factors such as diversity and inclusion, carbon emissions, biodiversity, data protection and board governance? One recent study calculated an average overall correlation of just 0.54 across the six rating providers in their sample. So, how can we cut through this confusion – and its potential to mislead consumers? I would argue that the answer lies in foundation, regulation and innovation.

Foundation

As a first step, public and private sector actors need together to build institutional foundations and a trusted ecosystem to support and deliver the ambition of ESG. This includes internationally consistent standards, a common language, high quality information and agreed protocols for market-functioning. I am pleased to say that we are starting to move in this direction. In corporate reporting, for example, the IFRS Foundation announced the International Sustainability Standards Board (ISSB) at COP26 in Glasgow. I am proud that the FCA has been closely involved in this work. The ISSB will set a global baseline for reporting standards for sustainability; one that can be adopted around the world and supplemented, as appropriate, with jurisdiction-specific requirements. This ground-breaking initiative will deliver a step change in the quality and reliability of the information flow from corporates to the financial sector – supporting firms' decisions; and better equipping finance to be a force for good.

Regulation

Building on these foundations, regulation and public policy can then set guard-rails for the market, enabling firms to innovate and evolve their ESG products and services within a trusted framework. As an example, last year, we wrote to fund managers setting out our expectations for the design, delivery and disclosure of ESG investment funds. Seeing the potential harm from misleading and exaggerated claims by ESG-labelled funds, we saw a need to act to protect consumers and preserve the integrity of the market. We took a principles-based approach initially. To codify too much too soon can be counter-productive in a fast-growing and dynamic market where capabilities are still building, and data, systems and processes are still evolving. But we do need to go further. We recently gathered stakeholder feedback on initial ideas for a framework for sustainable investment labels and consumer-facing ESG disclosures for fund products. We plan to consult on formal proposals by mid-year. As we develop new rules in this area, we will be looking closely at coherence with international requirements and the work of other jurisdictions.

Innovation

Only with the right foundations and guard-rails in place, can financial institutions deliver products and services that will reliably meet consumers' needs. The demand is clearly there: investors – institutional and retail – are increasingly pursuing ESG outcomes. And continued innovation in ESG investing is essential if the financial sector is to deliver on net zero commitments, and if finance is to play its part in supporting a more sustainable long-term future. Both industry and regulators have a role to play in innovation. Close collaboration is vital and the FCA has been running international TechSprints, FinTech Challenges and a Digital Sandbox programme to crowd-source creative ideas that will help to drive change and overcome industry-wide challenges.

At COP26, I launched the FCA's new ESG strategy, in which we have committed to working with fellow regulators and the Government to deliver these foundations and regulations. Our work will support the fair and effective integration of ESG into financial market decision-making, and the trusted delivery of ESG-labelled securities, products and services. And we will embed ESG across the breadth of the FCA's functions. We are looking forward to continuing to work with international and domestic partners as we all navigate what today may be a confusing world, but one that help to deliver positive change tomorrow.

DR. SABINE MAUDERER
Member of the Executive Board - Deutsche Bundesbank

Financial sector: financing Europe's transition

The Paris Agreement on climate change has paved the way for ambitious action to cut carbon emissions. Now it is crucial to make further progress. The European Union has pledged to reduce its emissions by at least 55% by 2030 and achieve climate neutrality by 2050.

Transitioning the economy is a long-term project that will require considerable investment, including in climate-neutral innovations. Additional investment of up to €350 billion per year over this decade will be needed to meet the EU's 2030 climate targets. Other environmental goals call for further additional €150 billion per year.[1] Public funds will not be enough. We also need to mobilise private capital, which is where capital markets, banks, investment funds and insurance companies come into play.

The insurance sector is one key player in financing the transition. First, as long-term institutional investors they can green their portfolios, thus steering flows towards green investments. Second, insurers protect companies' and households' assets as risk carriers and risk managers. Insurers can help their clients adapt to climate change by incentivising better risk prevention measures.[2] One way to do this could be through impact underwriting, for example with climate risk-based pricing and adapted contractual terms that contribute to climate adaptation and mitigation. This way, insurers could be drivers of Europe's transition.

Europe's financial system is still largely based around its banks. Loans will fund a significant portion of climate-related investment. Banks will need to be sufficiently resilient to absorb the climate risks that will materialise over the next years. Adequate risk management is essential, but progress still needs to be made on improving climate risk management practices. Supervisors will further assess banks' climate risk management in upcoming stress tests and supervisory discussions.

At the same time, however, traditional bank-based credit financing will not be enough to spur innovation. There are regulatory limits to banks' risk appetite, and rightly so. To scale innovations up to market maturity, more capital market financing is key. The success of these innovations will decide about Europe's future. Asian and US markets are well prepared and are enabling growth of promising enterprises and technologies.

Capital markets are also adjusting to the Paris Agreement. Bond markets in particular have seen the emergence of new instruments based around efforts by private and public issuers to improve their carbon footprint. As a result, ESG issuance skyrocketed last year, reflecting mounting investor demand and changing preferences. Moreover, the European Commission plans to issue up to €250 billions of green bonds by 2026 as part of the NextGeneration EU recovery fund. This will further expand sustainable markets.

While these welcome trends look set to continue in the coming years, it is important to address the issue of greenwashing and improve market transparency. This is where aligned global reporting standards and verification processes will be crucial.

Capital markets play a vital role in financing Europe's transition towards carbon neutrality.

In sum, capital markets will and must play a vital role in financing Europe's transition towards carbon neutrality. This highlights the urgent need to further develop sizeable, mature and integrated green EU capital markets. It calls for decisive action to boost capital markets beyond the sustainable finance segment, notably by making progress on the EU capital markets union (CMU). All climate-related plans must go hand in hand with a strengthening of the underlying capital market structures and standards to reduce the risks of national fragmentation. Moreover, the CMU specifically aims at giving innovative enterprises better access to funding. Their projects face high uncertainty and need risk capital, particularly from investors who are willing to finance promising enterprises with a long-term perspective and upside potential. National and European initiatives like the German Future Fund (Zukunftsfonds) and the EU platforms for venture capital promise to nurture the European start-up ecosystem.

It is time to make Europe fit for a sustainable future. We need all hands-on deck.

[1] European Commission, "Strategy for Financing the Transition to a Sustainable Economy" COM/2021/390 final, July 2021.
[2] EIOPA, "Report on non-life underwriting and pricing in light of climate change", July 2021.

EMILIE MAZZACURATI

Global Head of Climate Solutions -
Moody's ESG Solutions

Can net zero finance lift all climate finance boats?

The Paris Agreement was hailed as a landmark in global climate negotiations, but the implementation over the past six years has not delivered in line with expectations.

While emissions dropped in 2020 due to the Covid-19 pandemic, they rebounded in 2021, and according to the Intergovernmental Panel on Climate Change they would need to be almost halved by 2030 to meet the 1.50C goal. Financing for climate is also far from the Paris goals, with the Climate Policy Initiative estimating flows in 2019/2020 at over €550B globally, well short of the €2-5 trillion needed annually to maintain a 1.50C pathway.

While Glasgow crystallized a lot of momentum around net zero commitments from the financial sector and the real economy, Moody's ESG Solutions analysis shows that out of the largest 4,400 non-financial companies globally, over 2000 companies (42%) have set emissions targets, but only 3% of the 4,400 have targets that are aligned with achieving 1.5°C by 2050. The average implied temperature rise among assessed companies is 2.9°C. Sector results vary widely, but every individual sector covered has an implied increase of above 2°C and fail to rise to the ambitions of the Paris Agreement.

For financial institutions, capital committed to net zero through the Glasgow Financial Alliance for Net Zero (GFANZ) reached over €110 trillion of private capital committed from over 450 firms, which could theoretically deliver at the scale needed to alter the course of history on climate change.

The key question is now whether financial institutions will be able to deliver on these goals, and whether they have the tools to track and monitor progress in their portfolios. Moody's ESG Solutions' work assessing companies' performance against their net zero targets and the quality of their proposed implementation strategy is geared to provide the required transparency and accountability.

Financial institutions will need to fundamentally transform their business models and decision-making processes to systematically incorporate climate and carbon as a material concern in lending and investment decisions. They will also need to innovate and proactively drive different outcomes by pricing exposure to carbon and offering meaningful incentives to drive decisions in the real economy.

The EU has been a leader in establishing a comprehensive policy framework to help drive the transition towards a net zero economy, but globally more progress is needed in terms of reducing the financing of fossil fuels. The International Energy Agency estimated global fossil fuel subsidies at €310bn in 2020, a sharp drop from the €490 bn p.a. in 2017-2019 due to the pandemic and low oil prices. In contrast, the IMF recently calculated the true costs of fossil fuels subsidies was over €5 trillion, or almost 7% of global GDP, by counting the failure to accurately price externalities as a de facto subsidy for fossil fuels. This discrepancy between stated goals and the current energy policies in certain jurisdictions can be a critical impediment to meeting global targets, and financial markets may be hard-pressed to provide a counterweight to achieve energy transition.

The area in greatest need of attention is adaptation finance. The Climate Policy Initiative reports almost €1 bn in adaptation finance so far, while the UN estimates the needs at €120 to €260bn annually by 2030, rising to €240-440bn by mid-century. Adaptation finance is hard to track due to the lack of clear definition of what investments qualify as adaptation or resilience, and also because corporations investing in making their operations climate-proof may not report this spend as adaptation.

Financial institutions will need to fundamentally transform their business models.

There are, however, some relatively simple solutions that would help leverage the momentum for net zero and create broader resilience in the economy. Financing for climate mitigation projects and temperature-aligned finance could systematically include a requirement to incorporate resilience to physical climate risk in the projects. Helping raise awareness of the breadth of the exposure to chronic and physical climate change and mainstreaming the efforts to future-proof new investments to unavoidable impacts of climate change would be transformational and help open flows for adaptation and resilience finance across our economies.

JEAN-PAUL SERVAIS

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Has SFDR solved the problem of greenwashing regarding sustainable funds?

Despite the entry into force of the European Regulation on sustainability-related disclosures in the financial services sector ("SFDR") on 10 March 2021, sustainability still presents multiple challenges for investors, asset managers and regulators.

One such challenge is that sustainability issues are complex. Asset managers have to explain, in easily understandable language, their approach to considering ESG issues in the fund objectives. In addition, the terminology used when dealing with the ESG aspects of investment objectives is far from standardized and covers a multitude of approaches.

Furthermore, even if the aim of the SFDR is to provide more transparency on sustainability, greenwashing remains an issue. Generally, funds have adapted their documents and have further specified their investment policy by describing their sustainable methodology and the criteria used to pick assets and build their portfolio. Nevertheless, the description of the investment policy may be (too) vague, clear binding selection criteria may be missing and, for some, the classification of funds as "Article 8 or 9 SFDR funds" might seem like a marketing concept that covers a large range of funds, rather than an ESG categorization.

Moreover, the SFDR Regulation has not yet been fully implemented. The RTS have yet to be published and will apply only from next year. Given the wide range of products falling under articles 8 and 9 of the SFDR and the difficulty for investors to differentiate between products based on their sustainability, these RTS will increase transparency. They will not only introduce indicators to assess the ESG performance of funds but also provide templates for the ESG aspects, to allow for comparison of the levels of sustainability requirements of the funds.

Another challenge, especially for asset managers, is the lack of data. The entry into force on 1 January 2022 of the European Taxonomy Regulation should further improve the transparency of funds in terms of sustainability. Obviously, it is difficult to calculate portfolio alignment with the taxonomy as the data on the ESG aspects are not yet widely available on the market and some additional legislative pieces of the "Taxonomy puzzle" are still missing. In fact, at present not all Taxonomy delegated acts have been adopted or are in force; 4 of the 6 environmental objectives need further technical screening criteria, while discussions on the inclusion of gas, nuclear energy and agriculture are still ongoing. Until all the pieces of the Taxonomy and of the Corporate Sustainability Reporting Directive are in place, there will be a kind of transition period. Indeed, it will take a few years for these new standards to be fully deployed and for companies to implement them.

Another challenge, especially for regulators, is the extent of their power. Regulators ensure that fund documents are easily understandable and transparent with regard to sustainability. When verifying the implementation of the SFDR, regulators generally pay attention to transparency by ensuring that the classification of funds in the different categories of the SFDR is realistic and consistent with their investment policy. In that context, it seems a good practice to have an independent third party provide assurance for one or more of the managers' ESG disclosure statements. The EU Ecolabel might also be a partial answer to the assurance issue and to the multiplicity of labels, which all have a different reference system and thus make the sustainable fund offer difficult to understand for investors.

Sustainability still presents multiple challenges for investors, asset managers and regulators.

Finally, advertising is a concern when speaking of greenwashing. Here again, the marketing documents may be vague on their binding criteria and objectives in terms of sustainability. The verification of marketing documents is therefore important because it is usually through advertising that investors become aware of such products. The SFDR provides a response to this issue by requiring that the advertising is consistent with the investment policy of these funds, including with regard to sustainability.

LAURENT ZYLBERBERG

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Achieving the COP21 Treaty targets: where does the solution lie?

Complying with the 2015 Paris Agreements is a matter of shifting our growth paradigm towards a greener economy. Focusing on targets, even if they are ambitious, is somehow an open window to greenwashing. This means more funds directed towards low-carbon investments and a drastic reduction in supporting a carbon-based economic model. It is a matter of long-term investment!

Europe needs long-term investment to meet the challenges ahead and public actors play a central role in long-term investment at local, national and European levels. They can either channel funds toward long-term investments, or make such investment possible, or even finance the investments directly.

In a context of limited public resources, it is necessary for public expenditure to leverage private investment. It can be done in two ways.

First, through financial instruments, an illustration, at European level, can be given with the Juncker plan implemented in 2015 and its successor, InvestEU for 2021-2027. These EU guarantee programmes encourage risk-taking. Blending is another example by combining traditional grants with other financing instruments (loans, debt, guarantees, or other) obtained from a National Promotional Banks and Institutions (NPBIs), EIB or any "implementing partner".

Secondly, through incentives aimed at directing private financing: regulatory standards, soft law, taxation can be part of this incentivization. The EU taxonomy is a major illustration of this approach. By defining what is "green", the European Commission provides a common language that enables to classify future investments.

There was a time when the Government was regarded as "The" problem, this is not true anymore, it is now part of the solution. For this, economy should rely on a strong and long-term minded public financial sector. The recent report "Investing for the long-term, a short-term emergency", by B. Attali, released in January 2022, underlines specifically the importance of the financial sector in this transition towards a greener economy and suggests different types of measures aimed to reinforce the ability to finance this transition, by transforming savings into long-term investments.

First of all, within the prudential framework, some measures could be taken to better direct savings towards long-term investments while, at the same time, maintaining a secure framework. Climate risk is beginning to be included in the assessment of risks, but the protection offered by a diversified, long-term portfolio should also be incorporated into the prudential frameworks.

Among the tools that could be deployed, securitisation is worth to mention. By buying loans recorded on banks' balance sheets and thus reducing those banks' default risk, securitisation enables banks to free up part of their balance sheet and thus accelerate the rotation of their equity. Provided these mechanisms are accompanied by conditions and controls enabling the public bodies to verify that the financing margins generated by these transactions are used for long-term investments. The report refers specifically to "green securitisation" that could be put in place to provide loans for the ecological and energy transitions.

There was a time when the Government was regarded as "The" problem, this is not true anymore, it is now part of the solution. For this, economy should rely on a strong and long-term minded public financial sector.

As household savings in Europe have reached a high level, it is also important to design attractive products that can finance long-term investment, while offering sufficient protection. In addition to differentiated risk/return characteristics, the products offered must also offer savers "meaningfulness". From this point of view, it is appropriate to consider a range of products that are clearly differentiated depending on the level of risk households can accept and bear.

As there is neither Planet B nor Finance B, public and private actors should more than ever work together.

CHRISTIAN DESEGLISE
Group Head of Sustainable Infrastructure and Innovation - HSBC

Mobilising private investment for sustainable infrastructure

In the six years since the Paris Agreement, rapid progress has been made to mobilise private investment. Creating the policy environment is key. Europe has gone further and fastest: home to the most ESG-focused investors, the most progressive banks, and policymakers determined to set a framework for sustainable finance to flow. In climate risk management, disclosure and creating new products and services, Europe is leading the way to a more sustainable financial system. But challenges remain to create the asset classes needed to achieve the steep decline in emissions to net zero by 2050. Nowhere is this more evident than in infrastructure investment and in creating the financial structures for catalysing private funds at scale and at speed.

FAST-Infra is our latest initiative to accelerate investment in sustainable infrastructure and I believe it provides the best chance for success. Born out of President Macron's One Planet Lab, with founding partners including the Climate Policy Initiative, HSBC, IFC, OECD and the Global Infrastructure Facility, FAST-Infra has made rapid progress, including at COP26 in Glasgow, where we were delighted to showcase FAST-Infra and to launch the FAST-Infra label. This new label, developed following a public consultation, is built on 14 criteria and four core objectives:

- **Environmental:** the project should make a positive impact, such as increasing alignment with low-carbon pathways, more efficient use of materials, and enhancing biodiversity and the natural environment.
- **Adaptation & Resilience:** boosting resilience to climate, environmental, human-made, and disaster risks and in response to actual or expected changes in climate conditions.
- **Social:** improving healthcare, safety, and security of local communities and project parties, strengthening human and labour rights, creating jobs, gender equality, and access to education.
- **Governance:** meeting requirements for policies, processes, and procedures, including around compliance, anti-bribery and corruption, fiscal transparency, and transparent procurement.

We hope that FAST-Infra will help governments incorporate ESG criteria at design and pre-construction phases – since qualifying for the label should attract larger financing volumes – increase the supply of sustainable projects and reducing their financing costs. We believe it is important to avoid fragmentation wherever possible, so we have designed FAST-Infra to be compatible with the EU's Taxonomy Regulation and drawn on best practice from other frameworks such as the ADB ASEAN Catalytic Green Finance Facility Investment Principles; ICMA (Green Bond Principles, Social Bond Principles, Sustainability Bond Principles); and IFC Performance Standards.

We have achieved a great deal, but a huge challenge remains. To meet the UN Sustainable Development Goals and deliver Paris, the OECD estimates that $6.9tn of sustainable infrastructure investment is needed each year, much of it in developing economies. Current levels of investment are insufficient due to a lack of bankable projects and not enough private capital to finance them. Since we launched FAST-Infra, well over 100 organisations have pledged support, from banks and asset managers to governments and NGOs. Our common aim is clear: to transform sustainable infrastructure into a mainstream, liquid asset class. Building on our success in launching the label, the next phase for FAST-Infra is to create an end-to-end technology platform for infrastructure.

Through artificial intelligence and natural language processing tools, the platform will streamline each phase of the infrastructure financing lifecycle, collecting standardised project data, and facilitating harmonisation and comparability of contractual terms.

FAST-Infra provides an answer to one of the key challenges in delivering the Paris Agreement.

To bridge the infrastructure gap, everyone will need to play their part, including policymakers who must complete the task of creating the framework for sustainable finance and investment. As project sponsors, governments should plan projects that meet the criteria for the FAST-Infra label. Development institutions have a vital role to mitigate risks and to mobilise as much investment as possible by 'crowding in' the private sector. FAST-Infra provides an answer to one of the key challenges in delivering the Paris Agreement and I urge you all to support it.

LINE ASKER
Senior Sustainability Advisor - DNB Bank ASA

Policy initiatives to drive the sustainable transition

The financial sector can be a driving force for a sustainable transition. At DNB we use our position and expertise to actively help our customers move in a more sustainable direction, through advisory services, financing, and clear requirements.

However, the financial sector cannot ensure a sustainable economy on its own. There is also a need for policy initiatives and frameworks to transition the economy, in addition to the EU sustainable finance regulations. We thus welcome the initiatives in the EU Green Deal.

These EU initiatives already include many important measures that are necessary to drive the sustainable transition. But continued progress within certain areas may catalyst the transition in business and the financial sector. Notably, correct pricing of environmental externalities, transparency and data availability, incentives, competence building, risk sharing and collaboration. A short reasoning related to each of these aspects follows below.

Correct pricing of environmental externalities: Climate change, biodiversity loss and ecosystem degradation pose serious risks to business and the financial sector. Public policies that put a financial value on environmental impacts can help companies and the financial sector internalize these costs and make better informed decisions about how they manage their environmental risk.

These policies include putting a correct price on environmental externalities beyond GHG emissions, such as the use of raw materials that pose a risk to biodiversity, water use, and other actions that lead to environmental degradation. This process is complex and not straight forward. The EU should thus promote competence building in this area and facilitate discussions on how to include the value of natural capital and the price of environmental degradation in business and financial decisions.

Transparency and data availability: Transparency and ESG data availability is key to enable consumers, business, and the financial sector make informed decision when it comes to sustainability. The CSRD and the European Single Access Point are important initiatives in this area. The EU should continue to develop comprehensive ESG reporting requirements, as well as providing relevant tools.

Incentives: Right incentives are important to ensure that short-term decisions and actions are in line with the long-term sustainability goals, both in the private and public sector. This can include further developing the EU's Green Public Procurement (GPP) initiative and investigating how sustainability incentives can be integrated in business, in the financial sector and at the consumer level.

Competence building: Increased competence and awareness on sustainability issues can enable business, the financial sector, and consumers to make better and more sustainable decisions. Climate change, environmental issues and sustainability are new subjects to many actors. They also find it difficult to navigate the sustainability landscape and prioritize different actions.

The EU could take on a larger role in ensuring competence building at all levels. This can include requirements to include sustainability in education, providing competence building programs for businesses and the financial sector, and more general competence building in the society.

Continued progress within certain policy areas may catalyst the sustainability transition.

Risk sharing: Investments in innovative and sustainable technologies pose may pose considerable financial risk for first-mover companies and financial institutions involved. The consequence is that projects that are necessary to drive the sustainable transition often are deemed to high risk and not prioritized. This is even more prominent when making green investments in high-risk countries. The EU should thus continue to investigate new and innovative financing and risk-sharing measures.

Collaboration: Unnecessary to say, collaboration on all levels is key to reaching sustainability goals. This includes collaboration both within and between business, the financial and the public sector, and, most importantly, across borders. We thus welcome the increased focus on global collaboration in the renewed EU sustainable finance strategy. Climate change and environmental degradation are global problems, and international collaboration and standardisation of measures are essential to solving these issues.