Brussels, 28th May 2019

EACB Workshop on Sustainable Finance
24th of May 2019 – Paris
Summary of the discussions

Key note address

Sylvie Goulard, Deputy Governor, Banque de France, has presented the NGFS initiative and the recommendations contained in the report that was published in April. From the discussion it emerged that to achieve the targets of the Paris Agreement we need a comprehensive approach that will focus not only on climate but on sustainability as a whole. For this reason, all the stakeholders have to be involved and co-operate at a national and global level.

1st Panel: "Addressing climate risk: the supervisors' approaches and challenges with a view to implementing it in the regulatory framework"

Moderator: **Johannes Rehulka**, Managing Director, Fachverband der Raiffeisenbanken

Panellists: **Morgan Després**, Head of NGFS Secretariat, Banque de France; **Slavka Eley**, Head of Banking Markets, Innovation and Products, European Banking Authority; **Mike Velthaak**, Senior Policy Advisor, Rabobank

The panel provided an overview of the way forward and the policy implications of the current initiatives on climate and ESG risks from a supervisory and prudential perspective. The NGFS report and its key findings constituted the starting point. The statements focused on the challenges observed, best practices and the way forward .

Following the report the recommendations need to be put into practice. The NGFS is working on a number of deliverables for 2020 including a supervisors' handbook, a set of possible scenarios and best practices for central banks and case studies.

Members highlighted how it is extremely important that such deliverables are shared and consulted also with the industry. In particular, scenario analysis is considered a very complex point since, for instance, risk weighted assets take into account a one year perspective while climate risks must be looked over much more volatile time horizons (longer or shorter).

The EBA illustrated the work to come in the light of the CRR II/CRD V new mandate on climate related risk, in this respect the starting dimension will be Pillar 2 work and the supervisory take on how to include ESG risks in the supervisory framework, but also banks' business models, governance and risk management. EACB members highlighted how practices differ across banks at the moment although there is generally already a sustainability orientation. The EBA underlined repeatedly that the climate risk aspexts would have to be translated into financial risk. Discussions continued on stress testing, data collection, modelling, IT implementation).

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Members also stressed that it is necessary that the various supervisory and policy making initiatives are well coordinated to avoid overlaps and inconsistencies. This was confirmed by supervisors, given the common goal and mutual participation in international fora.

Panelists then exchanged on how it could be achieved that any tool and measure should be strictly risk based. From a risk management perspective, banks should not be left alone to develop tools and scenario analysis framework that could then reveal completely out of line with supervisors' approaches. It is essential that some guidance is developed and that supervisors share the progress and assumptions of their pilot projects and discussions. The proper calibration of the risks would be a key aspect.

Panelists also discussed the data gaps to be filled: this is a challenge for banks but also for their clients and the value chain of actors. I was confirmed also by supervisors that banks should not be the only ones responsible in filling these data gaps. Data available from authorities or other sectors (e.g. insurers) should be made available as much as possible.

The moderator, Mr. Johannes Rehulka underlined: *"The initiatives should not turn into a bureaucratic monster that weighs on both banks and the customers. A reflection on proportionality is urgently needed in this sense."*

Members also highlighted that consistency and safeguarding of the level playing field, also on the global level, are a necessary prerequisite, together with adequate implementation timelines.

Capital requirements should not negatively impact the financing of the transition, non-green activities are not necessarily brown and cannot be simply phased out. Panelists discussed on whether capital incentives are the appropriate way to support the transition and while at this stage it is too early to give a clear answer. Supervisors underlined that the risk dimension should be the decisive factor and that incentives should be generated preferably by other state measures. Mr. Rehulka underlined "We need incentives for credit institutions to finance the transition to a green economy. However new overloaded bureaucratic burdens for banks and their customers have to be avoided by legislators". The EBA and NGFS representatives confirmed that also proportionality aspects would have to be reflected and that of course the impact of future measures on the real economy would remain in the focus.

2nd Panel: "Investment services and the Commission Action Plan: impact on co-operative banks"

Moderator: **Mathias Bauer**, Group Regulatory Affairs, Raiffeisenbank International AG

Panellists: **Sven Gentner**, Head of Unit for Asset Management, European Commission; **Miguel Garcia de Eulate**, Financial Markets department, Unión Nacional de Cooperativas de Crédito; **Marcus Pratsch**, Head of Sustainable Bonds & Finance, DZ Bank AG; **Bernard Agulhon**, Head of Regulatory Affairs, Amundi Asset Management

Various legislative work streams are underway as part of the European Commission's Action Plan on Sustainable Finance with the aim of redirecting capital flows towards a more sustainable economy. Indeed, the Commission has identified that an estimated € 180 billion per year is required to achieve the 40% cut in EU greenhouse gas emissions by 2030 (as agreed in the Paris Agreement), not taking into account any further capital required to finance projects supporting social and good governance objectives.

The panellists representing different players in the investment services ecosystem within the co-operative banking group (asset manager, central institution and individual co-operative bank) expressed their full support for the overall objectives of the Commission Action Plan, and highlighted that a lot of work is already being done to incorporate sustainable finance principles into the everyday practice of their respective institutions. In addition, co-operative banks occupy an important position in mobilising private capital towards more sustainable activities because their portfolio is mainly directed towards lending to SMEs, which make up almost 99% of EU enterprises. Historically, they have also financed projects/companies with environmental/social objectives, and some are leaders in the provision of environmental products (e.g. green bond, green mortgage, etc.) to retail clients.

Panellists explained that this unique position of co-operative banks is beneficial to the sustainable economy but the relevant players are faced with challenges in implementing the various regulatory requirements due to specific technical issues in the regulation, as well as, cost and performance impact on the size of their institutions compared to bigger players.

Mathias Bauer, moderator of the panel, highlighted that “the main challenges we are facing deal with translating the approach taken in the proposed taxonomy regulation (which focuses on defining ‘environmentally sustainable activities’) to a classification system that can fit an investment product or investee company approach, as well as, integrating sustainability factors into organizational processes such as product governance cycles, suitability assessments and risk management considerations”. Mr Bauer also expressed the importance of proportionality in regulation taking into account smaller players such as co-operative banks due to the critical link between SME financing and the sustainable economy.

Following panel discussion, the key takeaway remained the regulatory gaps presented by the proposed taxonomy. The Commission has acknowledged that this gap needs to be addressed but did not indicate its intentions on whether this gap should be filled by regulation or the market.On a positive note, participants embraced the Commission’s comments that the taxonomy is not meant to ban certain activities, nor the investment or the provision of bank finance in such activities. The Commission however envisages that the taxonomy will help gradually shift financing in the medium-to-long term from unsustainable to sustainable activities by making the former a more expensive investment. The Commission also positively expressed that its intention with respect to the Disclosures Regulation is not that of penalising financial market participants for providing certain products but of standardising and improving the information flow to investors (transparency).

3rd Panel: “Principles for Sustainable and Responsible Banking”

Moderator: **Bouke de Vries**, Advisor to the Board, Public Affairs, Rabobank.

Panellists: **Liesel Van Ast**, Membership and Co-ordination Manager, UNEP Finance Initiative; **Karen Degouv**e, Head of sustainable business development, Natixis, BPCE Group; **Juan Lopez**, Head of Research Department, Federcasse

The Panel aimed at having a dialogue and comparing approaches on sustainable and responsible banking, highlighting different views and considerations with a specific focus on the UNEP FI newly launched “Principles for Responsible Banking”, from the side of co-operative banks. The PRBs and the implementation guidelines will run under consultation until 31th May. They set ambitious targets, that could help banks to better play a pivotal role in the sustainable transition mainly because: 1) they ensure a comprehensive approach that takes into consideration the main operations for a bank to be sustainable, starting from the governance; 2) PRBs represent the wider global framework of principles compared to the others national and international initiatives; 3) It is a project lead by industry. PRBs reporting implementation will not increase burdens for all European banks that are already committed to publish the non-financial annual report. Indeed, following the feedback already received, UNEP FI is going to simplify the framework proposed: all banks will start from the same point and will make the first assessment on the integration of the Principles 4 years after the endorsement of the initiative.

Some of the participants highlighted that while cooperative banks are looking with interest at the PRBs initiative, there is an element of complexity especially for small and medium-sized banks, operating with retail customers, SMEs and communities. This should be kept in mind, to complete the simplification process and to avoid excessive administrative burdens for the banks. The scope is to allow all kind of institution to join the initiative, without the creation of an exclusive framework. Sustainability is one of the fundamental principles of the credit cooperative movement, which was created in Europe more than one hundred years ago to respond to “societal needs” (primarily at the time, social cohesion and financial inclusions).

UNEP Finance initiative remains a coalition of the willing, that banks could decide to joint on a voluntary basis. Principles will be officially launched 22nd September during the work of the annual general assembly of the UN in New York.

As conclusion of the panel and of the workshop, Mr. Bouke de Vries has stated:

“Climate change is an urgent priority society must act upon. Co-operative Banks will do the utmost to help their clients to make the transition to a sustainable economy. As locally and regionally rooted organizations with a strong members base, we can help drive the change. To support this process, we believe that ‘green incentives’ in policies and a practical ‘green taxonomy’ for economic activities can make a positive difference too. We therefore welcome the initiatives of the EU in this regard and we are keen to make it work in the best way in practice. For those reasons, we believe that the UNEP FI Principles for Responsible Banking could represent an efficient tool for banks that want to approach the transition. We welcome the foreseen reporting simplification that was announced today, as a result of the first outcomes of the consultation.”