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The Consumer Voice in Europe

Seminar on Sustainable Finance

30 March 2022, on Sustainable Finance through a Financial Consumer Protection Lens

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CONTENT

- Consumer needs in sustainable finance
- Other interests in sustainable finance
- Overview of EU Sustainable Finance Legislation
  - Taxonomy Regulation
  - SFDR
  - CSRD
- Issues with this approach
- Q&A

SUSTAINABLE FINANCE: A CONSUMER PERSPECTIVE

- Consumers suffer the risks of environmental externalities, leading to demands of:
  - Mitigation
  - Adaptation
- Increasingly, consumers try to avoid participating in environmental harm.
  - Sustainable investment
  - Home renovation and financing
  - Insurance

CONSUMER NEEDS TO MEET THEIR OBJECTIVE

- Transparency
  - Reliable information
  - Comparable information
  - Comprehensible/concise information
- Product quality and safety
- A functioning retail financial market

SUSTAINABLE FINANCE: OTHER INTERESTS

- A transition to a more sustainable system must be financed
- Green growth is an attractive way to transform
  - It can be promoted by offering better financing conditions (essentially private subsidies)
- Sustainable products are good marketing

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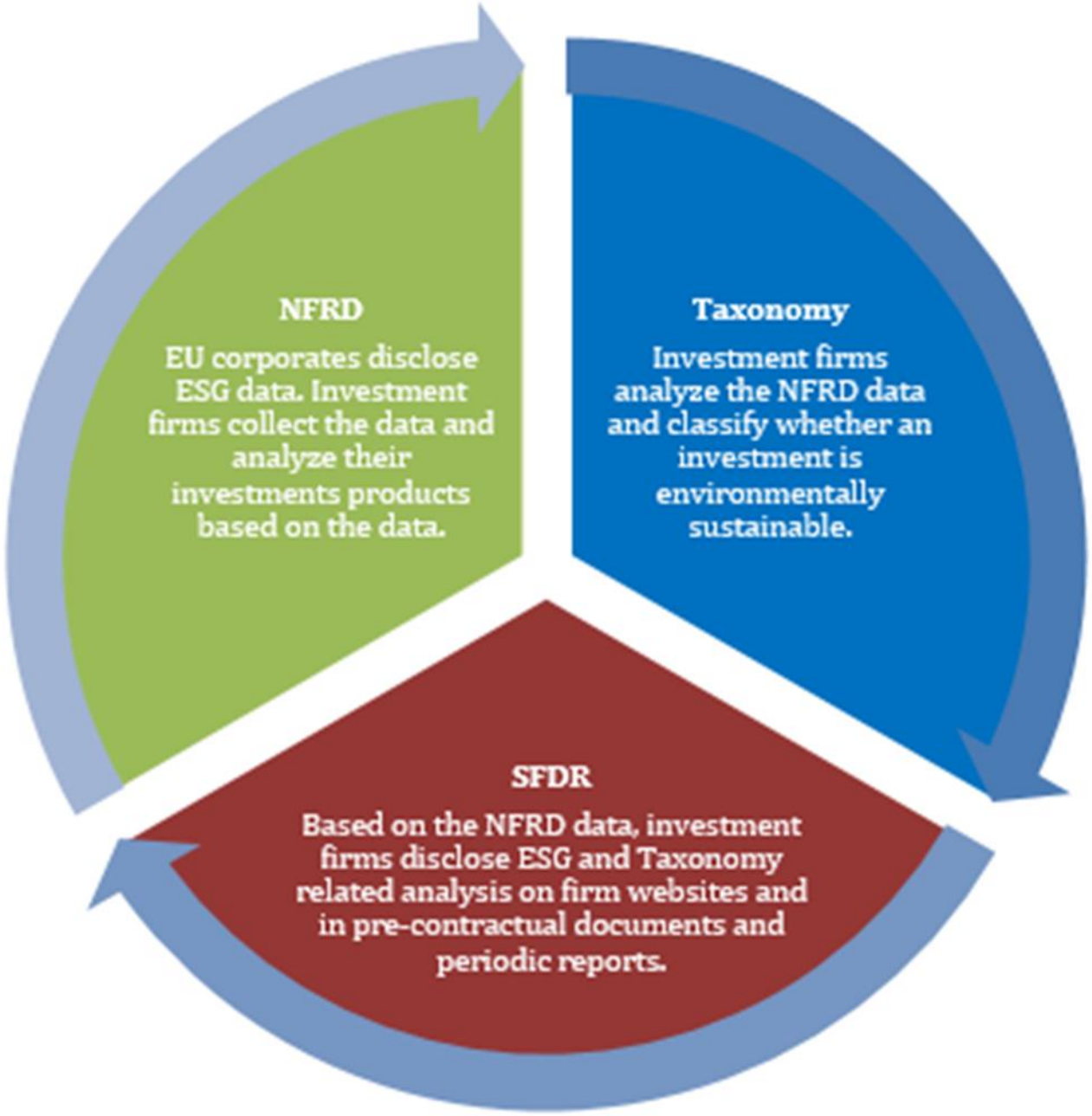
EU level Regulatory initiatives around Sustainable Finance

- NFRD -> CSRD: obligates companies to report on their sustainability impact.
- Taxonomy defines what activities are sustainable
- SFDR defines how and what financial service providers must report on the sustainability of their products.



THE TAXONOMY REGULATION

- The Taxonomy Regulation establishes what activities are sustainable, to help identify sustainable investments.
- So far: Six environmental objectives.
- Level 1 adopted in 2020, enforcement is in many cases dependent on Level 2
- Recommendations for level 2 are worked out by the Platform on Sustainable Finance (PSF)
  - Structure of the PSF
  - The commission is not beholden to stick to these recommendations

STRUCTURE OF THE TAXONOMY

- Substantial contribution (SC), Do No Significant Harm (DNSH) levels and minimum safeguards
- NACE-codes tied to objectives and performance judged against the according criteria
- Tool for green growth
  - Possible extensions on „negative“ and social Taxonomy

ISSUES WITH THE TAXONOMY

- Political interference
  - National interests
  - Industry interests
- Widening of scope before completion
  - Sovereign activity
  - Ecolabel
- Consequences
  - Trust
  - Market fracturing
  - Risk

SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

- Applies to Financial market participants:
  - asset managers,
  - financial advisors,
  - Investment firms,
  - Pension funds,
  - Banks,
  - Etc.
- Mandatory for large firms, comply or explain for smaller than 500 employees.

  The purpose of this is a level playing field in sustainable finance by combatting greenwashing and the integration of sustainability risks.

SFDR REQUIREMENTS

- Requirements on Entity level (practices)
  - Investment decisions
  - Principal Adverse Impacts (PAI)
  - Pre-contractual disclosures
- Requirements on product level
  - Article 8 products (light green)
    - Taxonomy alignment
    - Disclosure of sustainability strategy
  - Article 9 products (dark green)
    - Taxonomy alignment
    - Disclosure of sustainability strategy

SFDR ISSUES

- Accidental product standard
  - “Empty” product categories
- Possible Solutions
  - Conversion into real standards
  - Removal of false categories

NFRD BECOMING CSRD

- The Non-financial reporting directive (NFRD) is being rebranded as the Corporate Sustainability Reporting Directive (CSRD)
- Targets Businesses in the EU, requiring sustainability reporting (double materiality)
  - 3 years implementation delay for listed SMEs
  - Possible SME

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ISSUES WITH THE APPROACH

- Transparency is not a replacement for more direct action
- Consumers are not the responsible party for financing the sustainable transition
  - Public and Business contributions
  - Personal divestment should be a choice not an obligation
- The financial System can only contribute to, not replace, other forward guidance measures.

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Q&A

- Do you have any Questions?
- Do you require assistance with consumer aspects of Sustainable Finance?

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Thank you for your attention!

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