

FINANCING THE TRANSITION TO A CLIMATE-NEUTRAL ECONOMY

Technical workshop

22 April 2024, Brussels

#SFworkshop



PLATFORM ON
SUSTAINABLE FINANCE



European
Commission

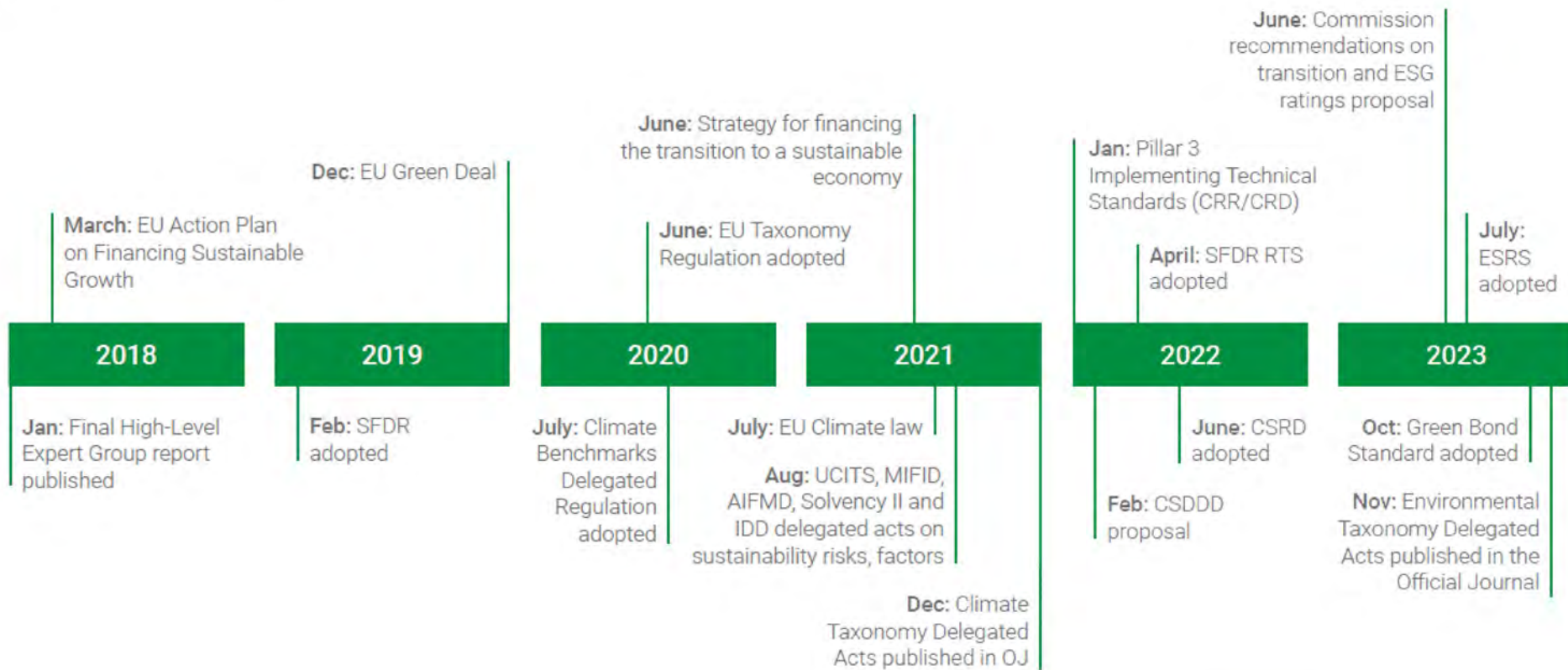
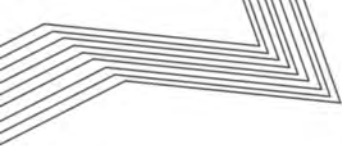
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PRESENTATION

A Compendium of Market Practices
Clémence Humeau





The Compendium explores how the **EU Taxonomy**, and the **wider sustainable finance framework**, are helping financial and non-financial actors **transition to net zero**.



It presents a compendium of **early market practices**, that participants are employing to transition their **business models and investments**.



The market practices reflect the **contributions of 7 stakeholder groups, across 37 market practices**, and the early stages of adoption of the EU sustainable finance framework.



It presents a stock take of early practices, which should **not be interpreted as best practices**, rather market practices.





BUSINESS STRATEGY, TRANSITION PLANNING AND TARGET-SETTING:

How the EU Taxonomy and the wider sustainable finance framework are used by financial and non-financial actors to structure entity-level transition plans and business strategies to achieve net zero by 2050.



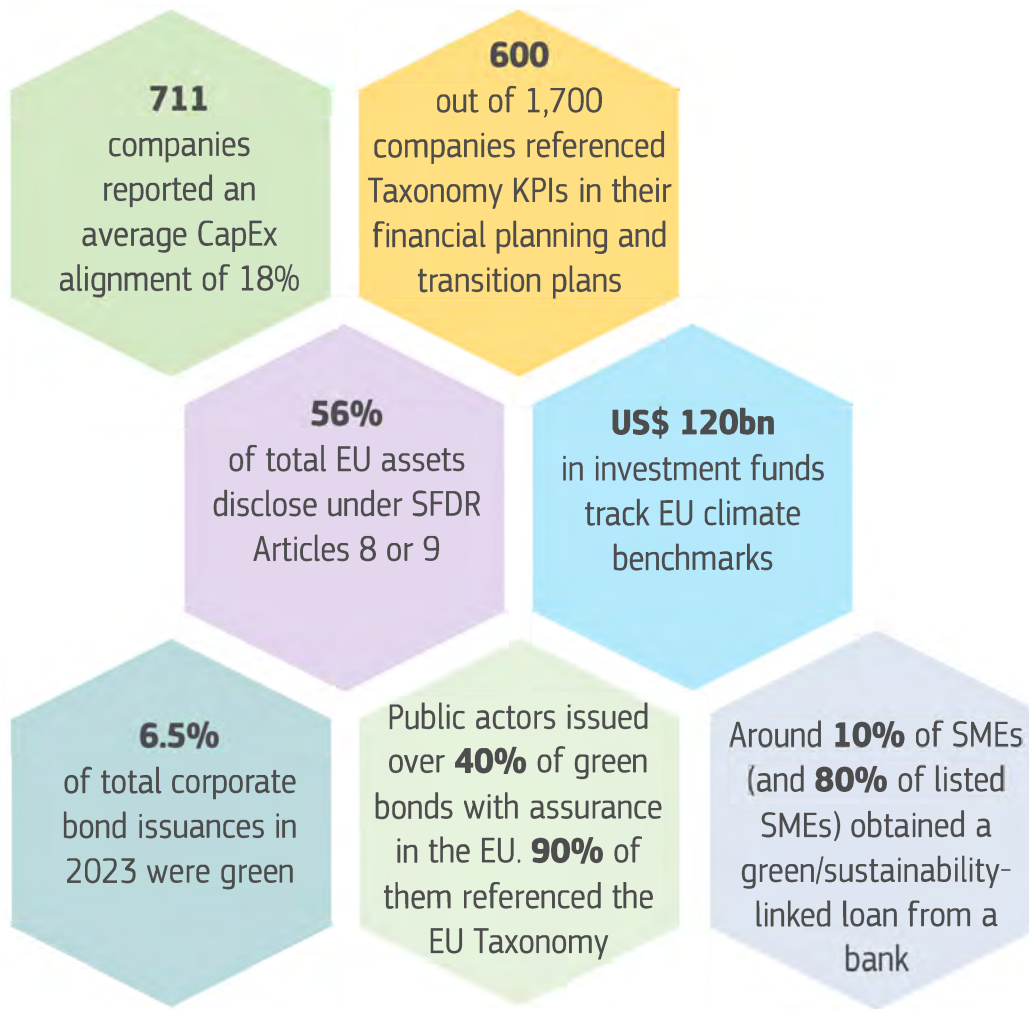
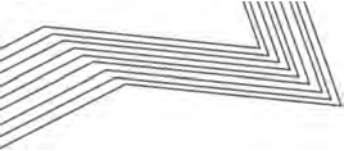
FINANCE AND TRANSACTIONS:

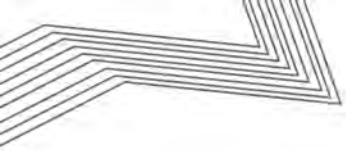
To which extent the EU sustainable finance tools are being adopted by financial and non-financial actors when structuring sustainable or transition finance solutions across a range of financial products and instruments, including green and sustainability-linked bonds, loans and investment funds.



REPORTING, MONITORING AND ASSURANCE:

The state of reporting by financial and non-financial actors and the processes in place to conduct appropriate data collection and verification.



- 
1. Market Observations
 2. Peer-to-Peer Recommendations
 3. Recommendations for enhancing the usability of the EU sustainable finance framework



Priorities for the EU Platform on Sustainable Finance

1

Enhance the **usability** and **scope** of the EU Taxonomy framework

2

Improve the **usability of EU Taxonomy KPIs** by financial and non-financial entities

3

Enhance **consistency, credibility and accelerate use** of **transition plans** by financial and non-financial entities in line with the sustainable finance regulatory framework

4

Continue to support **investors' uptake of the EU sustainable finance framework** and enhance **shareholder engagement**

5

Support the development of a **simplified and voluntary taxonomy approach for SMEs** and facilitate access to green finance accordingly

6

Improve **data collection** by all entities

7

Advise the European Commission on how to encourage the **uptake of the EU Green Bond Standard** by issuers that are not in scope of the CSRD (e.g. public sector, non-EU issuers)



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PRESENTATION

*Scaling Up Transition Finance within
the Existing Legal Framework*

Barbara Gabor

Scaling up transition finance



Context



Recommendations on Transition Finance



Current focus to streamline and scale the impact

Scaling up transition finance: Context

Other priorities: Links & synergies

Urgency of transition

Investment needs

Stakeholders needs:

- Clarifications & guidance
- Explanation of use of Taxonomy and other tools
- Not only about “green”
- Framing
- Greenwashing and green-hushing concerns

Scaling up transition finance: Recommendation

Definition of transition finance

- Sustainable Finance = “green” *and* “transition” finance
- **Transition:** transition from *any current* performance level to a level compatible with EU objectives (within a given timeframe)
- Difference: what is already green vs what is still in the process of transitioning
- Overlap: green finance tools (e.g. taxonomy, EUGB) can advance transition of entity

Scaling up transition finance: Recommendation

Transition finance includes:

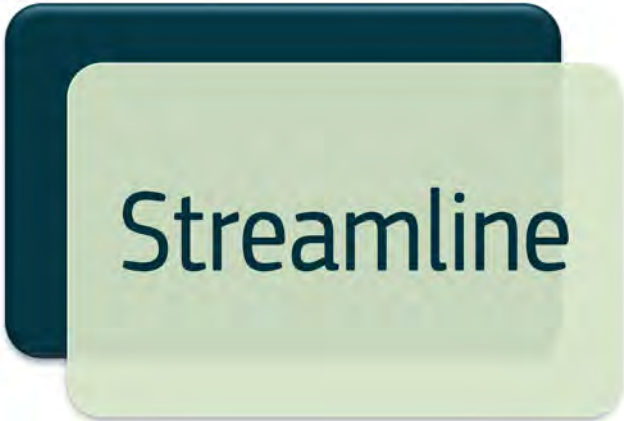
- Taxonomy aligned activities (incl. green capex, transitional activities)
- Taxonomy aligning activities + Transition Plan
- Activities & entities with robust & credible Transition Plan (where proportionate, targets)
- Portfolios tracking EU climate benchmarks

Recommendations to financial institutions:

- Can use existing tools to set their own targets, or assess clients' transition finance needs
- Focus on engagement & decarbonisation of real economy
- Outline relevant lending or investment strategies that could be suited to the relevant transition finance needs

**Compendium of Market Practices
by the Platform on Sustainable Finance**

Scaling up transition finance: Current focus

A light green rounded rectangular button with a dark blue shadow behind it, containing the word "Streamline" in dark blue text.

Streamline

A light green rounded rectangular button with a dark blue shadow behind it, containing the text "Scale-up" in dark blue text.

Scale-up

Scaling up transition finance: Current focus

Transition finance / transition planning

Stakeholders need:

Consistency / coherence

Credibility

Flexibility

Guidance

International interoperability

Addressing these needs:

Platform on Sustainable Finance

European Commission

European Supervisory Authorities

Main deliverable:

Implementation guidance by EFRAG

Scaling up transition finance: Current focus

Related workstreams to facilitate transition planning, credibility:

Transition
Pathways

Carbon Removal
Certification
Framework

EFRAG Guidance, Platform to clarify interlinkages
Transition finance portal to inform stakeholders



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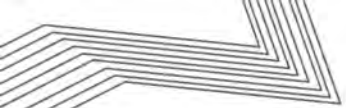
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PRESENTATION

*Monitoring Capital Flows to Sustainable
Investments: Intermediate Report*

Bertrand Magné



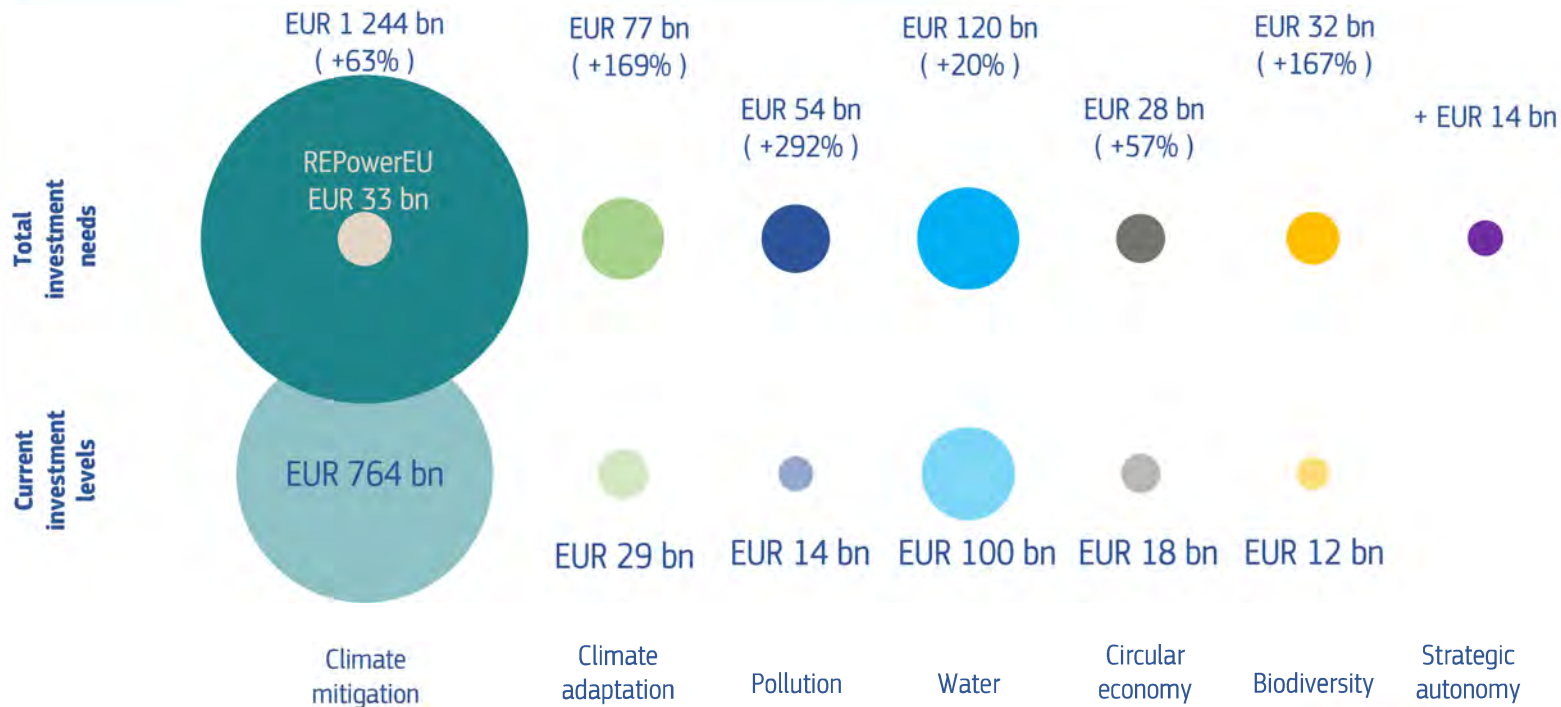
EU Platform on Sustainable Finance: **Workstream objective**

- Develop a **methodological framework** to **monitor the flow of private capital into sustainable investments**
(Taxonomy Regulation, Art. 20(1(e))
- **Track overall progress** of capital reallocation towards the Green Deal objectives

Current investment levels vs total investment needs to meet Green Deal objectives to 2030 (annual averages)

Total investment gap: Two-thirds higher than current investment levels

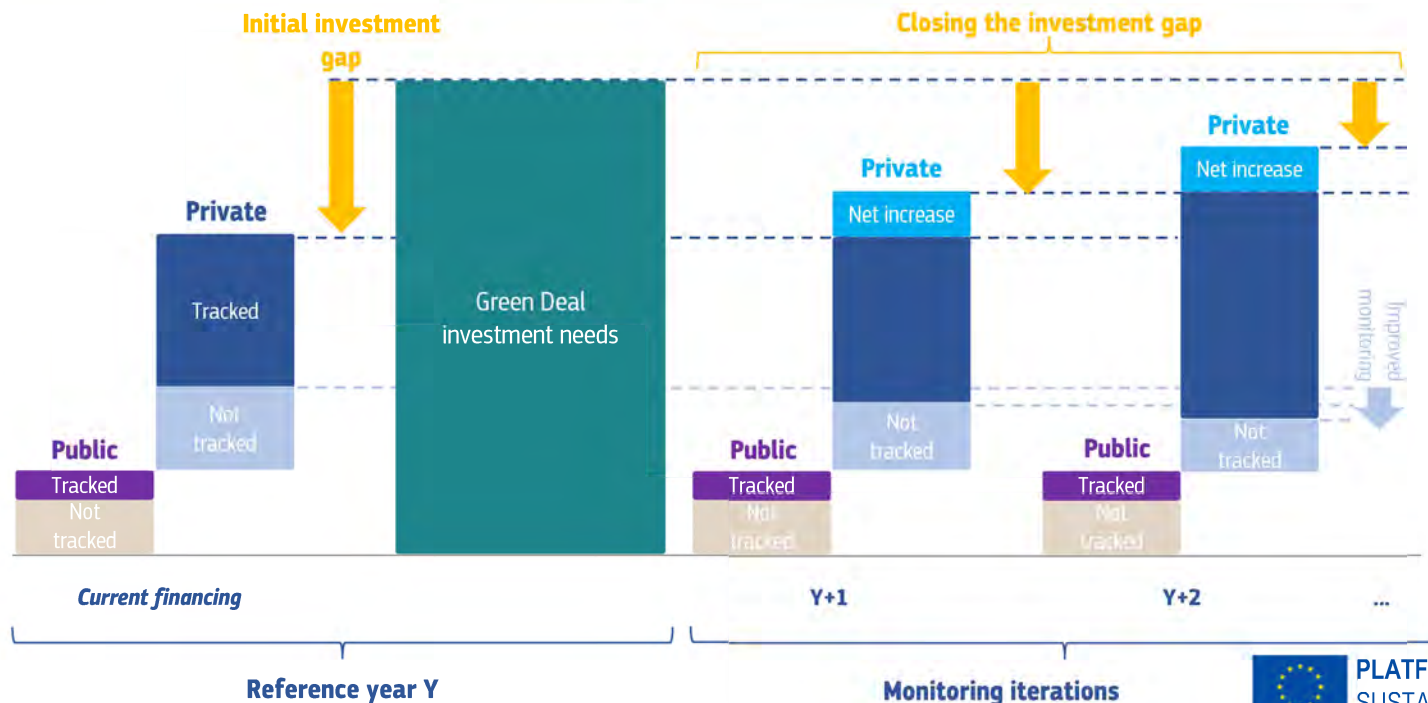
- **EUR 620 billion per annum until 2030** to meet Green Deal environmental objectives
- EUR 14 billion per annum until 2030 for EU green strategic autonomy



Measuring private sector contributions against overall investment needs

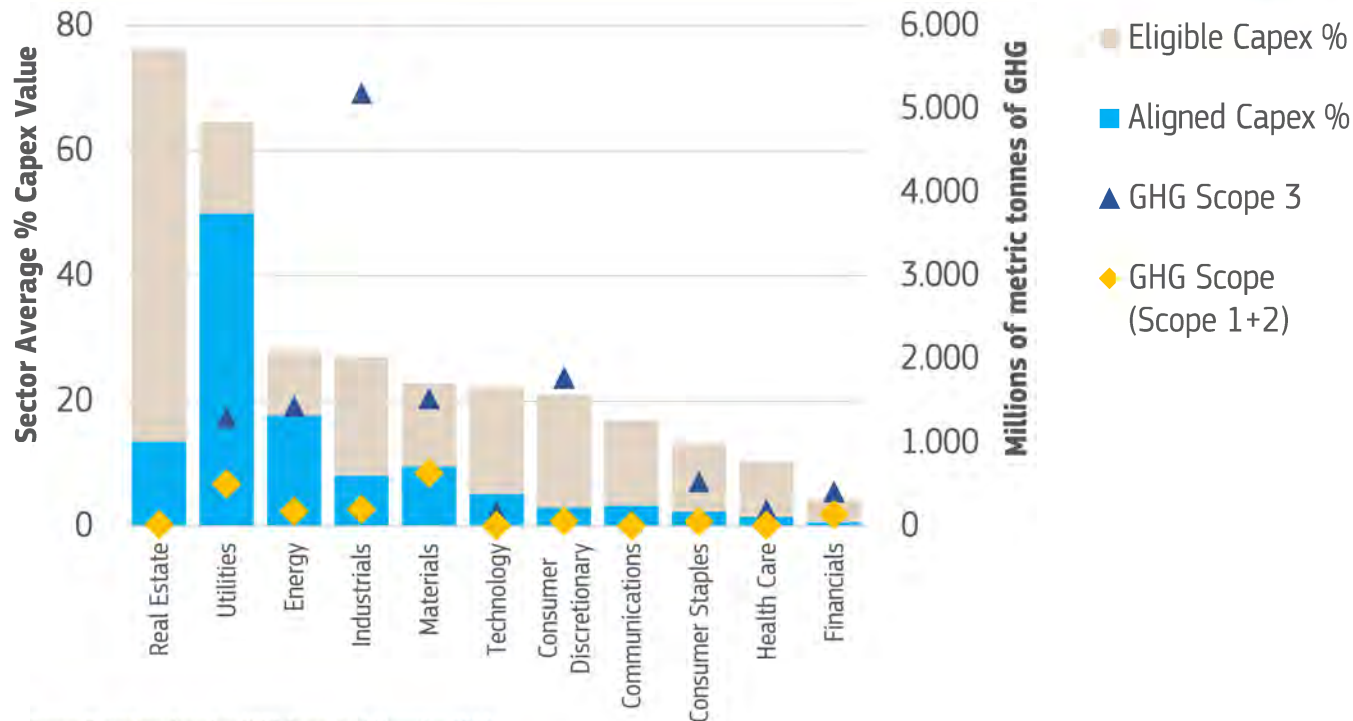
Private sector contributions to overall investment gap

Caveat: The monitoring captures only a portion a private contribution



Taxonomy-aligned CapEx shows significant differences across sectors

Eligible and Aligned Capex % vs GHG Emissions (Scope 1-3) per BICS Sector



- The shift from **eligibility to alignment** could represent a **threefold expansion of current aligned CapEx**.
- **Sectors** such as utilities, industrials, technology and consumer discretionary are **well positioned to make Taxonomy-aligned CapEx investments**.

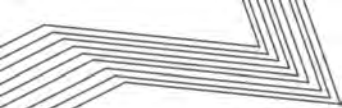
Data Source: 69% of universe have reported FY 2022 under the EU Taxonomy NFRD scope determined by employee count > 500, Country of Incorporation = EU27
Note: Financials includes voluntary reporting, as mandatory alignment starts from Jan 2024

Source: Bloomberg (based on NFRD Scope as of November 2023)

Disclaimer: Scope 3 Greenhouse Gas (GHG) Emissions as reported by the company. Please note this will not provide an accurate overview of Scope 3 Emissions. Real Estate Scope 3 has not been included in this graph.



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Effectiveness of capital reallocation to support the transition

Three policy relevant questions the framework aims to inform

Are **non-financial corporates** making the **necessary investments** to transition towards a green economy?

Do **non-financial corporates** have **access to finance** for sustainable investments?

Have **sustainable finance policies** been **sufficiently mainstreamed** in financing and investment strategies of financial firms?

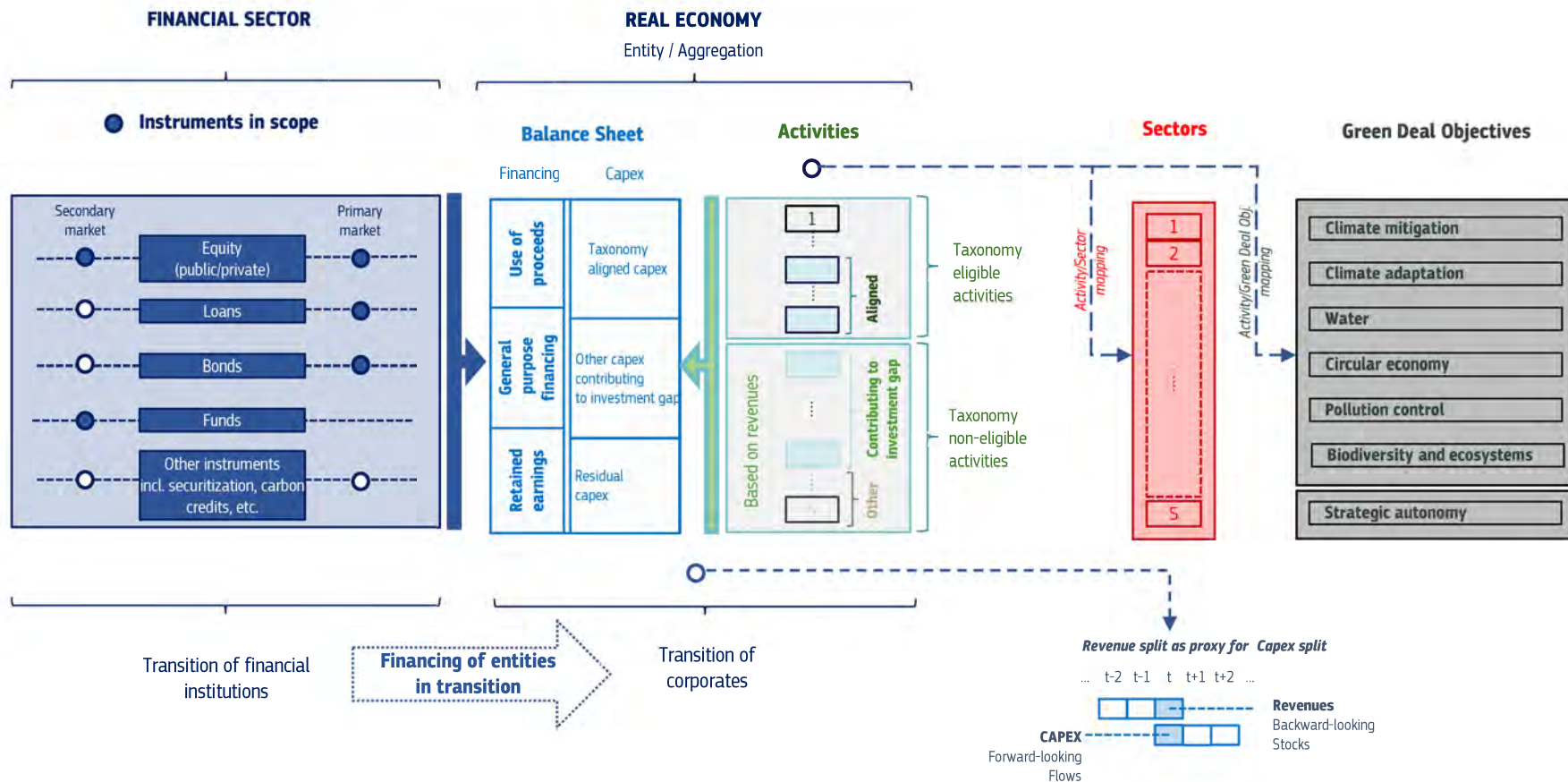


Key design principles

- **Corporate investments** contributing to **Green Deal objectives** in relation to identified **investment gaps**.
- **Capital flows** as opposed to capital stock.
- Focus on **primary market** financing and **real economy** investments.
- Secondary markets are covered because of their role in price formation and indirect influence on access to capital.
- A **phased approach** to include regulatory data as it becomes available. Until then, the framework will build on established market standards and data from ESG data providers.
- Main focus on capital flows **within the EU**.

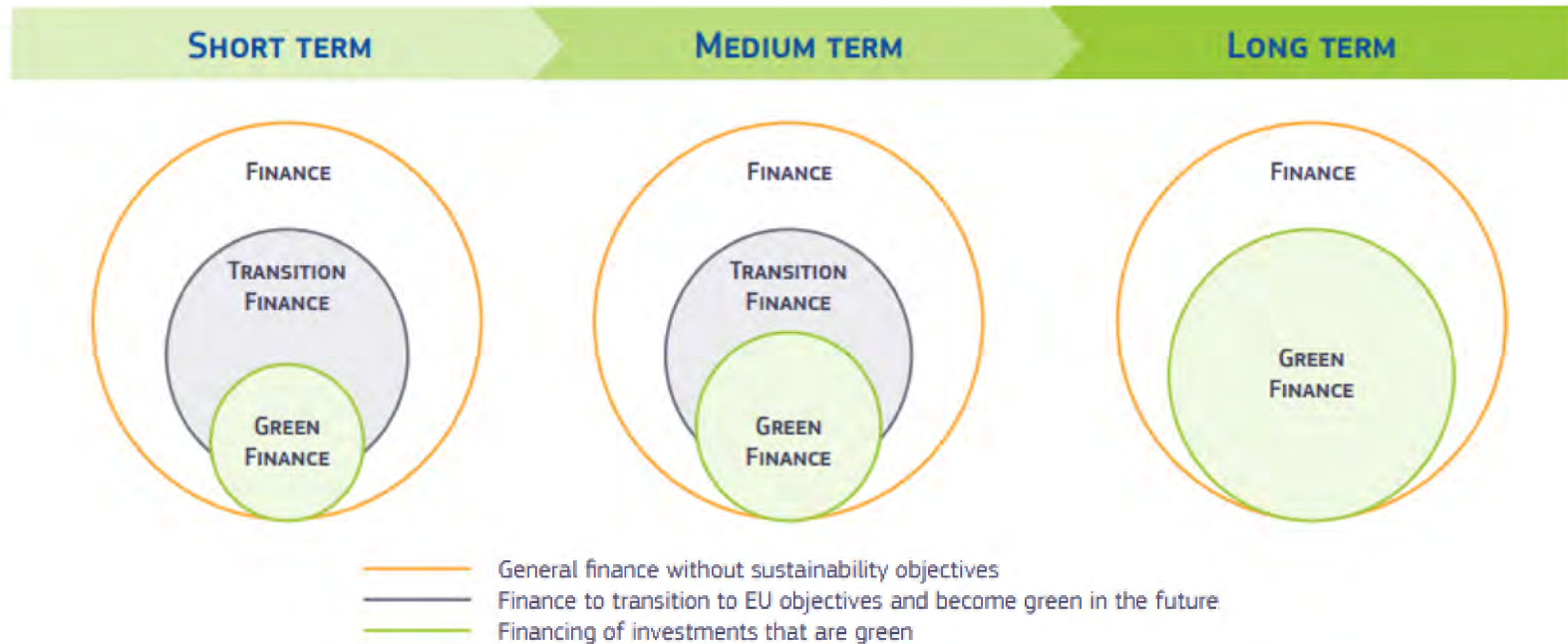


Overall conceptual framework



Relationship between green and transition finance

- Transition finance is supporting environmental improvements of entities in transition
- Over time transition finance will increasingly become green finance





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Slides presented during the panel discussions:

Speakers:

Nadia Humphreys

José Luis Blasco

Annamaria De Crescenzo



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Trends in Non Financial Disclosure

REVENUE - Alignment Reporting	Average % Change YoY
Utilities	2.8
Real Estate	2.6
Industrials	1.1
Communications	0.7
Technology	0.6

CAPEX- Alignment Reporting	Average % Change YoY
Real Estate	5.9
Utilities	1.6
Materials	0.5
Industrials	0.5
Communications	0.4

Source: Bloomberg, as at 19 April 2024 for all companies who have reported under the EU Taxonomy across two consecutive years

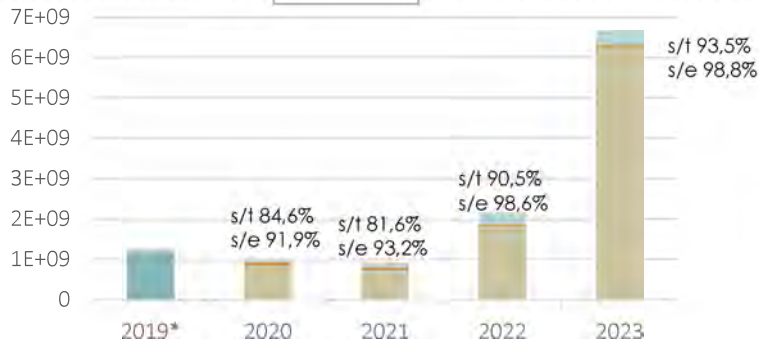
	Rev Avg %	Capex Avg %
Utilities	39.7	62.4
Real Estate	24.1	25.7
Energy	20.3	25.3
Industrials	12.1	13.3
Materials	9.8	13.1

Source: Bloomberg, as at 19 April 2024 based on disclosure from ~1,700 companies

ACCIONA, S.A.

FIVE LESSONS (of the many) THAT WE HAVE LEARNED

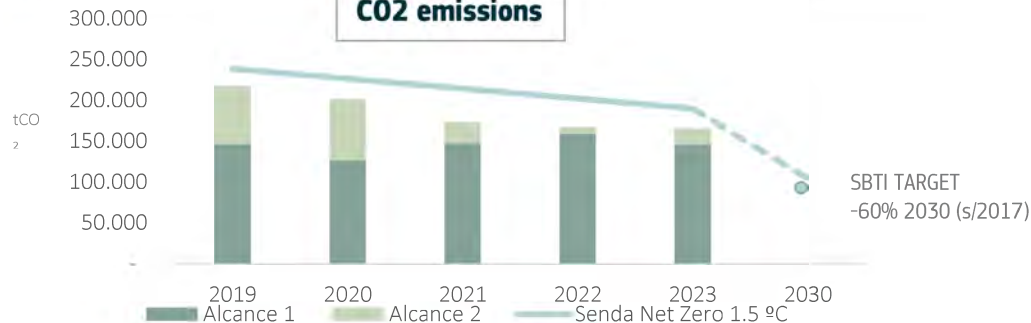
CapEx



Turnover



CO2 emissions



- **Playing offense: CapEx transforms your company**
- **Eligibility is a measure of exposure**
- **Aligned EBITDA can be a (more) valuable measure**
- **Intensive taxo-CAPEX impacts on your CO2 emissions (also)**
- **Adaptation is another story**

1. *The 2019 exercise is limited to the identification and classification of eligible and non-eligible figures solely because it only has the draft of the Delegated Regulation (EU) 2020/852.

2. ** The 2023 exercise has for the first time included the classification and analysis of the 6 environmental objectives in accordance with the approval of the Delegated Regulations (EU) 2023/2485 and 2023/2486.



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‘Green’ investment funds are primarily domiciled and invested in the US

Investment funds specialised in green investments (renewable energy, transport, buildings, energy efficiency) are mainly domiciled (50%) and invest in the US (70%)

Market value of specialised green funds’ positions in green companies* (bln USD) (2023Q1)



Note: Sample of 14000 “green” securities held by 1600 “green” funds. Source: Morningstar, OECD calculations.

* Green companies are defined as companies with revenues in key sectors involved in climate transition, including renewable energy, transport, buildings, and energy efficiency. <https://www.oecd.org/investment/investment-policy/towards-orderly-green-transition.pdf>

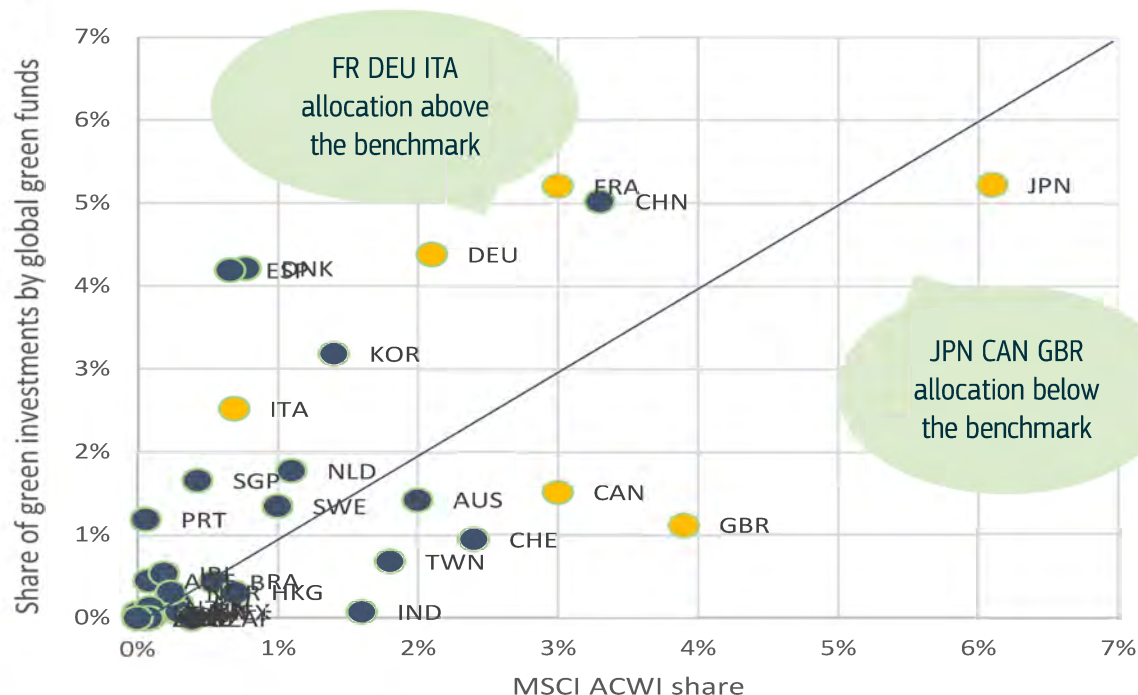
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Green investment allocation by global green funds mostly follows benchmark weights

Morgan Stanley Capital International All Country World Index country weights vs. Green investment country weights



Note: Sample of green funds with global investment mandate. Corr: 0.98. US is removed from the chart to enhance the focus but appears "underweight" with Y=52% and X=59%.