



STRENGTHENING THE SUSTAINABILITY AND RESILIENCE OF SOCIETIES

The European Commission (the Commission) published a document entitled [‘Consultation on the renewed sustainable finance strategy’](#) (the strategy) on the 9th April 2020. The Commission feels that further substantial progress is required to ensure that the financial sector supports business on the transition path towards sustainability, as well as continuing to support businesses that are already sustainable.

At a high-level the consultation focuses on three main areas:

- 

1 Strengthening foundations for sustainable investing by introducing an enabling framework.
- 

2 Increasing sustainability opportunities.
- 

3 Managing and integrating climate and environmental risks into financial institutions and the financial system as a whole.

Background to the consultation

Building on the [2018 Action Plan on financing sustainable growth](#), the Commission's renewed sustainable finance strategy will provide a roadmap with new actions to increase private investment in sustainable projects and activities to support the different actions set out in the European Green Deal and to manage and integrate climate and environmental risks into the financial system.

The initiative will also provide additional enabling frameworks for the European Green Deal Investment Plan.

The aim of this public consultation is to collect the views and opinions of interested parties in order to inform the Commissions' renewed strategy on sustainable finance.

Who are the interested parties?

Multiple types of stakeholders will be interested in this paper, including asset managers, pension and insurance providers, and insurance companies.

This will also be of relevance to beneficiaries and end-clients, banks, financial advisors, service providers (index providers, research providers), non-financial companies, law firms, NGOs, academia, public authorities and other stakeholders.

How can you respond?

For those who are interested in responding to the consultation, the webpage can be found [here](#) and can only be completed online.

Responses can be submitted up to the deadline of **15 July 2020**.

Climate and biodiversity

As part of its strategy the Commission states that the ongoing COVID-19 outbreak in particular shows the critical need to strengthen the sustainability and resilience of societies and the ways in which economies function, and also that the COVID-19 outbreak underscores some of the subtle links and risks associated with human activity and biodiversity loss.

Many of the recent outbreaks (e.g. SARs, MERS, and avian flu) can be linked to the illegal trade in, and consumption of, often endangered wild animal species. Furthermore, experts suggest that degraded habitats coupled with a warming climate may encourage higher risks of disease transmission, as pathogens spread more easily to domesticated livestock and humans¹.

If the climate and biodiversity crises are to be successfully addressed and reversed before potentially dangerous tipping points are reached, much of the investment needs to happen in the next 5-10 years. In this context, a more sustainable financial system should also contribute to mitigate existing and future risks to wildlife habitats and biodiversity in general, as well as support the prevention of pandemics -such as the COVID-19 outbreak.

The Sustainable Europe Investment Plan

Announced on 14 January 2020, the Sustainable Europe Investment Plan (the Plan) aims to mobilise public investment and help to unlock private funds through the EU budget, and associated instruments, notably through the InvestEU programme. Combined, the objective is to mobilise at least €1 trillion of sustainability-related investments over the next decade. In addition, for the next financial cycle (2021-2027) the External Investment Plan (EIP) and the European Fund for Sustainable Development Plus (EFSD+) will be available for all partner countries with a new External Action Guarantee of up to €60 billion. It is expected to leverage half a trillion Euros worth of sustainable investments.

Also, the European Investment Bank (EIB) published, on 14 November 2019, its new climate strategy and Energy Lending Policy, which notably sets out that the EIB Group will align all their financing activities with the goals of the Paris Agreement from the end of 2020. This includes, among other measures, a stop to the financing of fossil fuel energy projects from the end of 2021.

But still, the financial system as a whole is not transitioning fast enough

Substantial progress still needs to be made to ensure that the financial sector genuinely supports businesses on their transition path towards sustainability, as well as further supporting businesses that are already sustainable. It will also mean putting in place the buffers that are necessary to support de-carbonisation pathways across all European Member States' industries that will need greater support, as well as SMEs.

The renewed strategy will build on the 10 actions put forward in the European Commission's initial 2018 Action Plan on Financing Sustainable Growth, which laid down the foundations for channelling private capital towards sustainable investments. Many financial and non-financial companies still focus excessively on short-term financial performance instead of their long-term development and sustainability-related challenges and opportunities.



A diversity of topics under consultation

Section	Addressed To	Purpose	Topics Covered
I (Questions 1-5)	All stakeholders, including citizens	How the financial sector and the economy can become more sustainable	<ul style="list-style-type: none"> • What policy response is appropriate • Access to information • Sustainable investment products as default • Knowing how investee company business strategies and targets contribute to the Paris goals • Further action required to encourage investor engagement
II (Questions 6 - 102)	Experts (those with a certain degree of financial and sustainability-related knowledge)	Strengthening the foundations for sustainable finance and reducing and managing climate and environmental risks	<ul style="list-style-type: none"> • Company reporting and transparency • EU Green Bond Standard • Other standards and labels • Mobilising retail investors and citizens • Better understanding the impact of sustainable finance on sustainability factors • Green securitisation • Digital sustainable finance (Project pipeline) • Incentives to scale up sustainable investments • The use of sustainable finance tools and frameworks by public authorities • Promoting intra-EU cross-border sustainable investments • EU Investment Protection Framework • Promoting sustainable finance globally • Accounting standards • Sustainability research and ratings • Definitions, standards and labels for sustainable financial assets and financial products (prospectus and green bonds; other standards and labels) • Capital markets infrastructure • Corporate governance, long-termism and investor engagement • Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments • Financial stability risk (insurance prudential framework; banking prudential framework; asset managers; pension providers) • Credit rating agencies • Natural capital accounting or “environmental footprint” • Improving resilience to adverse climate and environmental impacts (climate-related loss and physical risk data; financial management of physical risk)

EU COVID-19 recovery plan must be green and ambitious, European Parliament press release 21 April 2020

The consultation builds on a number of previous initiatives and reports, as well as other consultation activities of the Commission. These include:

- Final report of the High-Level Expert Group (TEG) on Sustainable Finance 2018;
- The EU Action Plan on Financing Sustainable Growth 2018;
- Communication of the Commission on the European Green Deal in 2019;
- The communication of the Commission on the European Green Deal Investment Plan 2020; and
- The reports published by the TEG on sustainable finance with regards to the EU Taxonomy, an EU Green Bond Standard, methodologies for EU climate benchmarks and disclosures for benchmarks and guidance to improve corporate disclosure of climate-related information.

The strategy also makes references to past, ongoing and future consultations:

- Public consultation and inception impact assessment on the possible revision of the Non-Financial Reporting Directive (NFRD);
- Inception impact assessment on the review of the Solvency II Directive; and
- A future consultation on investment protection.

Asset managers take note

Traditionally, the integration of material sustainability factors in portfolios, as regards their selection and management, have only considered their impact on the financial position and future earning capacity of a portfolio's holdings (i.e. the 'outside-in' or 'financial materiality' perspective).

However, the Commission says that asset managers should also take into account the impact of a portfolio on society and the environment (i.e. the 'inside-out' or 'environmental/social materiality' perspective). This so-called "double materiality" perspective lies at the heart of the EU Disclosure Regulation, which makes it clear that a significant part of the financial services market must also consider their adverse impacts on sustainability (i.e. negative externalities).

The Commission asks respondents if they see merit in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities).



International efforts to address issues around sustainability and climate change – 3 recurring themes

In addition to the Commission's strategy paper, the Board of the International Organization of Securities Commissions (IOSCO) published its report on [Sustainable Finance and the Role of Securities Regulators and IOSCO](#), (the report) on 14 April 2020. The report seeks to help market participants address issues related to sustainability and climate change.

IOSCO's Sustainable Finance Network (SFN) prepared the report and highlighted three recurring themes that involve multiple and diverse sustainability frameworks and standards, including:

- Sustainability-related disclosure;
- A lack of common definitions of sustainable activities; and
- Greenwashing and other challenges to investor protection.

The report indicates that many issuers and asset managers operating cross-border may be subject to different regulatory regimes or participate in multiple regional or international third-party initiatives. This wide variety of regulatory regimes and initiatives, often with inconsistent objectives and requirements, may prevent stakeholders from fully understanding the risks and opportunities that sustainable business activities entail.

To inform its work, the SFN drew on a survey of the initiatives planned or undertaken by securities regulators and market participants to address the opportunities and challenges posed by sustainable finance. In reaching its conclusions, it also considered the discussion at its Stakeholders Meeting in June 2019 and the findings of the IOSCO Growth and Emerging Market Committee 2019 report on [Sustainable finance in emerging markets and the role of securities regulators](#) and the 2019 IOSCO [Statement on Disclosure of ESG Matters by Issuers](#).

As a result of the SFN's work, the IOSCO Board agreed in February 2020 to establish a Board-level Task Force on Sustainable Finance (which IOSCO refer to as the

Sustainability Task Force or 'STF'), which is aimed at enabling IOSCO to play a driving role in global efforts to address issues described in the report.

The STF's aim is three-fold:

- To improve sustainability-related disclosures made by issuers and asset managers;
- To work in collaboration with other international organizations and regulators to avoid duplicative efforts and to enhance coordination of relevant regulatory and supervisory approaches; and
- To prepare case studies and analyses of transparency, investor protection and other relevant issues within sustainable finance to illustrate the practical implications of its work.

Next steps for IOSCO

In the first instance, the STF's mandate will be to promote two main objectives:

1. Addressing transparency



To improve sustainability-related disclosures made by issuers and asset managers the Task Force will:

2. Promoting investor protection



i) Identify and develop categories of disclosure;
ii) Collaborate; and
iii) Conduct case studies.



The three C's



1. Categories

Categories of disclosure which are material for investors (“decision useful”) and which are capable of falling within the supervisory and regulatory competence of securities regulators should be identified and developed.

Also, assist IOSCO members in identifying and addressing greenwashing and other investor protection concerns. As part of this work the Task Force will examine categories of disclosure to assess whether industry specific or broader metrics would provide decision useful information and comparability between different issuers. The Task Force will engage with the industry, voluntary third party disclosure standard setters and other relevant organisations.



2. Collaborate

Work in collaboration with other international organisations and regulators (for example, IPSF and NGFS), in order to avoid duplicative efforts and to enhance coordination of relevant regulatory and supervisory approaches. Other collaborations could include the FSB Standing Committee on Assessment of Vulnerabilities (SCAV) Analytical Group on Vulnerabilities (AGV) work on the financial stability implications of climate change.



3. Conduct case studies

To conduct case studies and transparency analyses, investor protection and other relevant issues within sustainable finance, which could include: i) transparency issues among ESG data providers, ii) disclosure of methods and governance among CRAs and ESG rating agencies, iii) practices and experiences of asset managers on the use of sustainability-related factors in investment decisions processes, and iv) risks of greenwashing in the market for sustainable investment products.



The path to utopia or an actual destination?

In its resolution on EU coordinated action to combat the COVID-19 pandemic and its consequences, the European Parliament called on the Commission to propose a recovery and reconstruction package that “should have at its core the Green Deal and the digital transformation in order to kick-start the economy.”²

There is no doubt that international collaboration and consistency of approach would be extremely useful, particularly given that the multiple strands of regulation, standards, codes and guidelines have created complexity,

increased costs and the risk of confusion for investors, which may well lead to unintentional greenwashing.

It will be interesting to see how this work progresses and understand whether increased scrutiny and analysis, as well as co-ordination, of international requirements can lead us to a true and consistent ‘sustainable’ destination for all.

¹ See for instance “UNEP Frontiers 2016 Report on Emerging Issues of Environment Concern”, UNEP, 2016.

² <https://www.europarl.europa.eu/news/en/press-room/20200415IPR77109/covid-19-meps-call-for-massive-recovery-package-and-coronavirus-solidarity-fund>.

Please contact for further details:

David Morrison

Global Head of Trustee and Fiduciary Services
david.m.morrison@citi.com
 +44 (0) 20 7500 8021

Ann-Marie Roddie

Head of Product Development Fiduciary Services
annmarie.rodzie@citi.com
 +44 (1534) 60-8201

Amanda Hale

Head of Regulatory Services
amanda.jayne.hale@citi.com
 +44 (0)20 7508 0178

Caroline Chan

APAC Head of Fiduciary Business
caroline.mary.chan@citi.com
 +852 5181 2602

Shane Baily

EMEA Head of Trustee and Fiduciary Services
 UK, Ireland and Luxembourg
shane.baily@citi.com
 +353 (1) 622 6297

Jan-Olov Nord

EMEA Head of Fiduciary Services
 Netherlands and Sweden
janolov.nord@citi.com
 +31 20 651 4313

www.citibank.com/mss

The market, service, or other information is provided in this communication solely for your information and "AS IS" and "AS AVAILABLE", without any representation or warranty as to accuracy, adequacy, completeness, timeliness or fitness for particular purpose. The user bears full responsibility for all use of such information. Citi may provide updates as further information becomes publicly available but will not be responsible for doing so. The terms, conditions and descriptions that appear are subject to change; provided, however, Citi has no responsibility for updating or correcting any information provided in this communication. No member of the Citi organization shall have any liability to any person receiving this communication for the quality, accuracy, timeliness or availability of any information contained in this communication or for any person's use of or reliance on any of the information, including any loss to such person.

This communication is not intended to constitute legal, regulatory, tax, investment, accounting, financial or other advice by any member of the Citi organization. This communication should not be used or relied upon by any person for the purpose of making any legal, regulatory, tax, investment, accounting, financial or other decision or to provide advice on such matters to any other person. Recipients of this communication should obtain guidance and/or advice, based on their own particular circumstances, from their own legal, tax or other appropriate advisor.

Not all products and services that may be described in this communication are available in all geographic areas or to all persons. Your eligibility for particular products and services is subject to final determination by Citigroup and/or its affiliates.

The entitled recipient of this communication may make the provided information available to its employees or employees of its affiliates for internal use only but may not reproduce, modify, disclose, or distribute such information to any third parties (including any customers, prospective customers or vendors) or commercially exploit it without Citi's express written consent. Unauthorized use of the provided information or misuse of any information is strictly prohibited.

Among Citi's affiliates, (i) Citibank, N.A., London Branch, is regulated by Office of the Comptroller of the Currency (USA), authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority (together, the "UK Regulator") and has its registered office at Citigroup Centre, Canada Square, London E14 5LB and (ii) Citibank Europe plc, is regulated by the Central Bank of Ireland, the European Central Bank and has its registered office at 1 North Wall Quay, Dublin 1, Ireland. This communication is directed at persons (i) who have been or can be classified by Citi as eligible counterparties or professional clients in line with the rules of the UK Regulator, (ii) who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and (iii) other persons to whom it may otherwise lawfully be communicated. No other person should act on the contents or access the products or transactions discussed in this communication. In particular, this communication is not intended for retail clients and Citi will not make such products or transactions available to retail clients. The information provided in this communication may relate to matters that are (i) not regulated by the UK Regulator and/or (ii) not subject to the protections of the United Kingdom's Financial Services and Markets Act 2000 and/or the United Kingdom's Financial Services Compensation Scheme.

© 2020 Citibank, N.A. and/or each applicable affiliate. All rights reserved by Citibank, N.A. and/or each applicable affiliate. Citi and Arc Design is a trademark and service mark of Citigroup Inc., used and registered throughout the world.

GRA31467 04/20

