POSITION PAPER

On the European Commission Action Plan ‘Financing Sustainable Growth’

Introduction

In this position paper, the Dutch banking sector, represented by the Dutch Banking Association (Nederlandse Vereniging van Banken, NVB), shares its key positions on the European Commission Action Plan on Financing Sustainable Growth, also referred to as the Sustainable Finance Action Plan. The NVB welcomes the Action Plan as an important opportunity for stimulating the integration of environmental, social and governance factors in the financial ecosystem, with a view to increasing the financing opportunities for low-carbon, energy- and resource-efficient activities. By creating a common language for ‘sustainable finance’, the Action Plan will also help to harmonise and further develop current market practices and to prevent ‘greenwashing’.

Key messages

- The Dutch banking sector fully supports the goals of the Action Plan on Financing Sustainable Growth and is actively contributing to the further development, i.a. via the European Banking Federation.
- The taxonomy of economic activities should make use of, or interlink with existing classification systems and cover all economic activities and projects.
- The NVB suggests the European Commission to complement the Action Plan with activities to stimulate a value chain approach and to share best practices of signalling negative impacts and addressing these with partners along the value chain, such as promoted by the UN Guiding Principles For Business and Human Rights and OECD Guidelines for Responsible Business Conduct.
- Considering that the Action Plan does not include disclosure requirements for lending activities, the NVB would welcome non- binding disclosure guidelines which are specifically developed for lending, taking into account client confidentiality and privacy concerns.
- In the implementation of regulations under the Action Plan, actions need to be taken in the right order. The proposed amendments to MiFIDII and the updated Suitability Guidelines from ESMAfor example, can only be effective once a taxonomy is in place.
- Within the scope of prudential regulation, climate stress testing and reporting requirements are considered the most effective instruments within the current prudential framework.

1. **The NVB fully supports the goals of the Action Plan on Financing Sustainable Growth**, which are:
   - to reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth;
   - to manage financial risks stemming from climate change, environmental degradation and social issues;;
   - to foster transparency and long-termism in financial and economic activity.

   The NVB is therefore actively contributing to the further development of the Action Plan, i.a. via the European Banking Federation. However, the NVB notes that the **pricing of negative externalities**, such as greenhouse gas emissions, is the most effective way of increasing the bankability of sustainable economic activities. The NVB therefore encourages the European Commission and Parliament to support and improve the carbon emissions trading system or to otherwise stimulate an effective price for carbon emissions. The NVB would also like to point out that the Action Plan mainly focuses on broadening the availability of funding for sustainable projects, while in current market conditions the lack of bankable or investable projects is considered to be the most important bottleneck. Many environmentally or socially desirable projects lack the size or risk/return profile needed for banks or other financial institutions to be able to provide them with funds.

2. The **taxonomy** of economic activities, arguably the most important part of the Action Plan, will form the basis which will enable consumers and financial market participants to discern sustainable financial products and services from others. The NVB welcomes the initiative to create a common language for sustainable finance, and would like this system to interlink with existing European or international systems of classification, such as the System of Environmental Economic Accounting (SEEA), which is already being used by European statistical offices and financial institutions. This system consists of the European classification system of economic sector (NACE), environmental classification systems (CEPA and CREMA) and product classifications (Common Nomenclature, CN). Considering what is already in place, and that working with existing systems comes with the advantage of lower implementation burdens for financial institutions and public bodies, we strongly suggest that the Technical Expert Group ('TEG') makes a best effort to use and integrate existing European or international systems of classification . Furthermore, the NVB encourages the TEG to develop a full-fledged taxonomy, covering not only explicitly 'green' projects but **all economic activities and projects**. The Commission, Parliament and Council are further urged to not implement any regulation based on the taxonomy before the taxonomy is properly developed and is in place (please also refer to point 5).

3. The Commission has chosen to primarily develop a taxonomy focused on environmental aspects of sustainability, although minimum standard for social and governance concerns are included. The NVB understands this choice as pragmatic, considering the urgency of taking climate action, for instance, but would also like to see efforts being made to increase the financing opportunities for socially sustainable projects. In addition, even with minimum social and governance standards, the taxonomy will not be able to guarantee that activities are sustainable on all dimensions. For a true check on sustainability, it is necessary to look deeper into the value chain and not just at the type of product or project being delivered. Even with minimum standards, an environmentally sustainable project can still contribute to human rights breaches further up the value chain. The NVB therefore proposes that the European Commission complements the Action Plan with activities to **stimulate a value chain approach and to share best practices** of signalling negative impacts and addressing these with partners along the value chain, such as promoted by the UN Guiding Principles For Business and Human Rights and OECD Guidelines for Responsible Business Conduct. Banks in the Netherlands are piloting such an approach, together with public and private parties, within the *Dutch Banking Sector Agreement on International Responsible Business Conduct regarding Human Rights* and are more than willing to share their experiences.

4. As a part of the action plan, the Commission has proposed regulation on disclosures relating to sustainable investments and sustainability risks. Considering that this regulation does not apply to lending activities, the NVB would welcome some form of **harmonisation of disclosure practice** for lending as well, such non- binding disclosure guidelines which are specifically developed for lending. In the development of such guidelines, client confidentiality and privacy concerns should be given due attention. Dutch banks have considerable experience in measuring and disclosing sustainability aspects. Specifically, Dutch banks and other financial institutions have developed tools to determine climate impact which could serve as best practices.

5. In the **implementation** of regulations under the Action Plan, actions need to be taken in the right order. Implementing the proposed amendments to MiFIDII, for example, does not make sense before the taxonomy is fully developed. Consideration should also be given to the fact that many banks in Europe have already taken considerable action to integrate sustainability risks and opportunities into their work processes. In the Netherlands ESG risk management has become mainstream already. Different forms and shapes of sustainable banking exist alongside each other, and due care is taken to inform clients of the applicable interpretation of the concept. Harmonisation and common classification, as proposed in the action plan, is welcome as it will

increase transparency for clients. However, the action plan should not require or unintentionally lead to a complete overhaul of current good practices, for that would be counterproductive.

6. The NVB would like to promote further mainstreaming of climate risk management in the European financial sector and believes that **prudential regulation** can play a role. However, prudential requirements are not considered to be the most important factor in the decision to finance 'green' or other assets. There are more effective ways to stimulate the transition to a carbon-neutral economy, such as carbon pricing. Within the scope of prudential regulation, climate stress testing and reporting requirements are considered the most effective instruments within the current prudential framework. The NVB is not in favour of specific capital requirements for 'green' or 'brown' asset classes, unless these are truly risk-based. Considering the fact that both banks and supervisors are still in the process of increasing their understanding of the relations between climate change and macro financial risk, we would like to further the debate on and development of instruments under Pillar 2 (ICAAP) and Pillar 3 (disclosure), such as climate stress testing.

More information

Sharon van Ede
Sustainability Affairs
ede@nvb.nl
+31 6 53 59 53 38

Simon Rooze
European and International Affairs
rooze@nvb.nl
+32 495 124 293