greater risk of high-growth, innovative firms, banks are more reluctant to finance them. Achieving an effective re-balancing of the financing mix of firms towards more market-based sources, is proving as essential as challenging and requires the provision of strong incentives.

Looking beyond SMEs, one accepted explanation for growth slowly recovering since the double dip recession, is low investment. Before 2008, gross fixed capital formation in GDP as a share of GDP was around 20%. It then declined to 17% in 2013, representing an EU annual investment gap between 2 and 3% of GDP or around €300bn/annum.

However relaunching investment also requires taking into account that in many Member States although households have accumulated savings, the private sector and government have accumulated high levels of debt and have now to deleverage.

3. Various initiatives have been taken at the EU level to improve the investment in the EU

The Investment Plan for Europe (IPE), which aims to encourage investments meeting EU long-term economic needs, focuses on the mobilisation of private sources of funding (leveraging €21bn public funds), the creation of an investor friendly environment (through technical assistance in particular) and comprehensive information on project investment opportunities in the EU (project pipeline). The objectives of the IPE have recently been enhanced in order to mobilise up to €630bn in 2022.

Investment vehicles channelling savings toward investment have been or will be launched: European Long Term Investment Fund targeting unlisted companies, debt instruments for which a buyer cannot be easily identified, real assets that require significant initial investment, small and medium sized enterprises (SMEs), and the Pan European Pension Fund a voluntary personal pension label designed to give savers more choice. They should all help to channel more savings into long-term investments in the EU.

Financial institutions have also benefited from significant regulation reliefs. The Solvency 2 delegated regulation was amended to remove barriers to investment in the EU and to channelling capital into infrastructure and long-term sustainable projects. Qualifying infrastructure investments will now form a distinct asset category and benefit from a lower risk calibration. The Commission also proposed to include a new category ("infrastructure corporates") in the assets that can benefit from a lower risk calibration, as will also European Long-Term Investment Funds (ELTIFs).

Supporting factors (i.e. targeted reductions of regulatory capital charges) have been introduced to alleviate SME and infrastructure bank financing capital charges. A framework defining Simple Transparent and Standard securitisations is being agreed upon, which should facilitate the off-loading of bank balance sheets and consequently ease the financing by banks.

4. A profound evolution of the financial landscape is underway

Finally, a profound evolution of the financial landscape is underway, which is expected to reduce the role of banks and further involve Insurance undertakings, Investment and pension funds. The Commission is indeed seeking deeper and more integrated capital markets in the EU to provide businesses with a greater choice of funding at a lower cost and offer new opportunities for savers and investors notably in a context where a reduction of the involvement of banks in the financing of the economy is still considered as necessary in order to make the financial system more resilient.

However, this partial withdrawal of banks raises the concern that smaller enterprises and infrastructure project sponsors, will find it difficult to have access to new funding sources the demands of which are of a different kind (higher amount, specific maturities, greater level of remuneration, additional transparency, etc.). In this context EU and National Promotional Banks will play an increasing role in identifying financing needs throughout the EU and in contributing to supplying effectively bankable projects and investments.

Green and sustainable finance

The political and regulatory environment has not been disrupted by President Trump's declaration that the USA will withdraw from the Paris Agreement. All the other countries have confirmed their commitments, notably at the G20 meeting in Hamburg in July, and even within the United States, many states, major cities and private sector leaders have done the same.

The momentum for the development of green and sustainable finance is continuing to move forward, as illustrated by the increase in volumes on the green bond market and the new initiatives rolled out in the private and public sectors, including on the regulatory and supervisory side.

Two important developments are taking shape with this new public-private cooperation that EUROFI has called for since COP 21:

- Many companies worldwide have committed themselves to implementing the FSB Disclosure Task Force's recommendations;
- The High-Level Expert Group (HLEG), created by the European Commission in December 2016, published an interim report in July with a first set of recommendations submitted for consultation.

1. Positive market developments:

The green bond market is continuing to grow: after $42bn of total issues in 2015 and $80bn in 2016, it is expected to climb to over $100bn in 2017. The issuing of a €7bn green bond by France with a maturity of 22 years was an important and positive development, and confirmed the very high level of demand for green bonds, as this issue was oversubscribed; it should pave the way for other sovereign issuers, including in emerging countries, to follow. The market has also matured, with bonds from a growing number of countries (24), different types of bonds, issuers, ratings and the use of proceeds. Investors with and without a green mandate are showing interest in this market, with operations frequently oversubscribed.

Public funds are supporting the financing of projects, notably the European Fund for Strategic Investments (EFSI) managed by the European Investment Bank (EIB), which aims to unlock up to €315bn of investment in combination with private funds and which will have at least 40% of its funds contributing to Paris Agreement goals.

The World Bank and the EIB have launched new initiatives to have more investment projects and match them with finance, especially in countries that are not yet engaged in sustainable finance: the World Bank in relation to emerging and developing countries, and the European Investment Bank in Europe (which has created a specific European Investment Advisory Hub to build a pipeline of projects and provide assistance). The IFC, the arm of the World Bank focused on the private sector, and Amundi, a leading European asset manager, have created the largest dedicated green bond fund for emerging markets – a $2bn initiative that aims to deepen local markets and expand financing for climate investments.

All these developments are positive, but the total volume of green or sustainable finance is still low compared with the financing needs and the overall size of the markets. Over the next two decades, Europe needs around €180bn of additional investment annually. The amount issued on the green bond market this year will represent 1% of the total bond market worldwide.

2. Regulatory and supervisory side: disclosures

The FSB has adopted the report of the task force chaired by Michael Bloomberg, which was published in December 2016 and defined a set of recommendations for common, voluntary climate-related financial disclosures and provided guidance to help companies, particularly in the financial sector. More than 100 companies globally, with a combined market capitalisation of around $3.5tn, and financial institutions responsible for around $25tn of assets, have pledged their support. Governor Carney welcomed these developments, writing: "Climate change presents risks...but it also presents opportunities that wise chief executives and investors will capitalise on. The solution provided by the task force recommendations is by the market for the market. And by acting in their own interests, leading companies, banks and investors from across the G20 are helping society address one of the gravest challenges we face"[1].

The task force's mandate has been renewed for one year to provide assistance for companies that will implement its recommendations and to monitor disclosures.

A number of institutional investors, notably pension funds and sovereign funds, already disclose data about their portfolio and more specifically in relation to climate change and ESG (environment, social, governance) principles. These publications have enabled the WWF (World Wide Fund for Nature) to assess the equity portfolios of European funds in Nordic countries and the Netherlands with regard to a 2° strategy compatible with the Paris Agreement. This research concludes that these funds have invested well in clean energies, but not divested sufficiently from fossil energies[2].

In France, Article 173 of the 2015 Energy Transition Act requires institutional investors to disclose, for the first time at June 30, their strategy to take climate change into account in the management of their portfolios. The assessment of these first disclosures will certainly provide interesting information and input for all financial institutions and corporates.

3. European Commission High-Level Expert Group (HLEG) interim report:

In December 2016, the European Commission appointed the HLEG, chaired by Christian Thimann, who is also Vice-Chair of the FSB Disclosure Task Force. This group's mandate is to provide, by the end of 2017, recommendations for a comprehensive EU strategy on sustainable finance as part of the Capital Markets Union.

The HLEG published an interim report in July 2017 with a first set of eight recommendations and their preliminary views on other issues.

The eight recommendations are as follows:

1. A classification system for sustainable assets: an EU classification system of financial products that captures all acceptable definitions of "sustainable"; it will initially focus on climate change given the considerable progress in this area;
2. A European standard and label for green bonds and other sustainable assets, as well as a label for sustainability funds;

3. Fiduciary duty that encompasses sustainability: "the responsibility of directors and investors to manage long-term sustainability risks should be enshrined in their relevant duties, whether it is through fiduciary duty in common law or its equivalent in other legal systems"
4. Disclosures: "investors should provide forward-looking analysis on how their portfolios are aligned with the energy and environmental transition, potentially via mechanisms comparable to France's recent Energy Transition Law, Article 173"; "the 2018 review of the Non-Financial Reporting Directive represents an opportunity"; "the disclosure rules should be principle-based and leave room for flexibility and innovation across four key elements: governance, strategy, risk management, and metrics and targets";
5. A sustainability test in financial legislation to ensure that sustainability is embedded across all future EU financial regulations and policies;
6. Create "Sustainable Infrastructure Europe", a dedicated advisory and "match-making" facility between public authorities (including municipalities) and private investors, which could be housed within the EIB (the European Investment Advisory Hub is considered too small given the number of potential investment projects across the EU);
7. Position the European supervisory agencies on sustainability: "the current review of the ESA operations provides an excellent opportunity to clarify and enhance their role in assessing ESG-related risks…even without changing their current mandate".
8. Accounting standards for energy efficiency: "Eurostat's interpretation of public sector accounting standards on energy efficiency needs to be improved".

In addition to these policy recommendations, the HLEG is working on other policy areas which require further analysis and discussion, such as:

- The early definition by 2018 of the EU's 2030 and 2050 climate and energy goals;
- Improving the governance of financial institutions on sustainability matters;
- Integrating sustainability in ratings;
- Integrating sustainability more effectively in accounting standards;
- Improving the sustainability benchmarks;
- The use of green-supporting factors or brown-penalising factors for banks;
- The investigation of the possible implications of Solvency II for insurance companies;
- Increasing the "pipeline of sustainable projects for investment".

This report and its recommendations in particular have been submitted for consultation until September. A one-day hearing in Brussels in July revealed a good level of support for most of the recommendations, especially from green lobbyists and experts, but some reluctance among regulators (for instance on fiduciary duty) and private market stakeholders (for instance on classification and labels).

1 Financial Times

2 WWF Report: European asset owners: 2°C alignment and misalignment of equity portfolios, June 2017

Improving transparency to develop sustainable finance

1. Facilitating the financing of the transition towards a more sustainable economy is challenging

Indeed, investors, lenders, insurers and project sponsors need useful and understandable information notably regarding climate-related issues, in order to make informed capital allocations and financial decisions, while regulators need to understand the risks that may be building up in the financial system.

Eventually, this information will make it easier to have access to capital by increasing investors' and lenders' confidence, and extending the awareness and understanding of climate-related risks and opportunities within companies and among market participants.

This information to be effective and useful, has to constitute a real common language in order to facilitate decision making, streamline negotiation and transactions, and build a holistic view of climate-related issues.

2. Mainstreaming an effective common language

Such an effort requires notably defining systematic and standardised information regarding the financial impact of climate-related risks and opportunities on a given organisation, and the environmental impact of a given investment that an organisation is planning.

These are the respective objectives of the Task Force on Climate-Related Financial Disclosures (TCFD) and the