# The financial sector: a powerful actor in fighting climate change

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The European Commission has stressed that in order to achieve the EU's 2030 climate targets, each year approximately €180bn of additional investments in energy efficiency and renewable energy is needed. It states that a key part of this is 'making the financial sector a powerful actor in fighting climate change'.

At a global, EU and domestic level there are substantial initiatives designed to connect finance with climate action and the sustainability agenda. These initiatives aim to channel financial investments into the right areas, while also enhancing green responsibility, disclosure and accountability.

## United Nations (UN) initiatives

The UN Environment Programme Finance Initiative (UNEP FI) is a partnership between the UN Environment Programme, global banks, insurers, investors and other institutions who have committed to sustainable finance and investment. Through frameworks such as the Principles for Responsible Banking, the Principles for Sustainable Insurance and the Principles for Responsible Investment, the signatories have committed to setting standards designed to ensure private finance fulfils its role in realising the UN's 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change.

The Sustainable Stock Exchanges Initiative is an UN initiative in collaboration with the World Federation of Exchanges. It focuses on stock exchange strategies to promote green products and services that mobilise financial resources for climate action. It aims to integrate sustainability into the exchanges' strategic plans and business models, with senior management having to show commitment to embedding sustainable practices. Key elements include identifying and managing the impact of each exchange's own operations on the environment, and dedicating exchange resources and personnel to the sustainability work plan.

## EU Sustainable Finance Action Plan

At an EU level, the European Commission has already taken a number of concrete actions from its March 2018 Sustainable Finance Action Plan for a greener and cleaner economy. These include the development of an EU taxonomy (classification system) that sets harmonised criteria for determining whether or not an economic activity is environmentally sustainable. It also determines how low carbon benchmarks and indices are set. These common metrics give funders and investors' confidence in the level of sustainability of their investment. This leads to more informed funding and investment decisions which promote 'green' financial products and activities. The EU's actions will also see dedicated legislative acts being introduced which pave the way for mandating pension funds, asset managers, rating agencies, investment advisers and other financial intermediaries to consider and disclose their considerations of climate change and ESG when making financial decisions and giving financial advice.

As seen by the EU Directive 2014/95/EU (brought into Irish law by SI 360/2017) and guidelines, corporate disclosure of sustainability-related information is key. This is not only as a stick to drive corporates to greater consideration of sustainability in corporate strategies, but also to provide information and guidance in developing policies and allowing the financial sector to efficiently direct capital to sustainable investments.

## Green Bonds

The development of the EU Green Bond Standard is a build on the International Capital Market Association (ICMA) Green Bond Principles which, according to ICMA, have been used as the framework for the vast majority of green bond issuances. The principles are based around four mandatory principles:

- A description of the use of proceeds which need to finance assets and projects with positive environmental impacts
- The requirement of a clear process for the evaluation and selection of projects
- A description of how the funds are allocated or tracked
- Report on the use of proceeds with information on the environmental impact of the projects

The principles also recommend external review to confirm the alignment of the bond or bond programme with the four core principles. These are the principles which have been used as the framework for example in ESB's recent €500m green bond offering and in the development of AIB's green bond framework.

## Debt finance

In the debt finance sector, A&L Goodbody has recent experience of corporate loans with contractual economic incentives based on the Loan Market Association's sustainability linked loan principles. In our view this will become an increasing feature of bilateral/syndicated loan facilities in the short term.

## A driving force

It is evident that there is substantial institutional momentum and policy commitment designed to ensure that the financial sector is a leader and key driving force of global climate action. It is one of many forces that must be further mobilised to ensure that domestic and international climate change commitments are achieved.

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