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Position of the European Association Public Banks (EAPB)

On the Proposal for the Sustainable Finance Taxonomy Regulation

The European Association of Public Banks (EAPB) represents 31 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 93 public financial institutions from 15 European countries. With a combined balance sheet total of about EUR 3,500 billion and a market share of around 15%, EAPB members constitute an essential part of the European financial sector.

Our member banks undertake financing activities, pursuing policy goals set by their governments. Thanks to their knowledge of the local economies and markets, public banks are key partners for the national governments and the European Union in designing and distributing financial instruments and grants, project financing for local and regional governments etc.

The purpose of this Position Paper is to formulate our policy recommendations to the Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment COM(2018)353 tabled by the European Commission on 24 May 2018 (also referred to as the Sustainable Finance Taxonomy Regulation).

I. General Comments

Due to the nature of their business models, public banks have often been among the pioneers of the sustainable finance market. The public promotional banks are frequent and large issuers of green bonds all across Europe and have considerable experience in providing their intelligence to other market players. Against this background, the EAPB welcomes the set of proposals aiming to enhance the role of financial sector in achieving a sustainable economic growth. We believe that the proposals represent an important step towards reaching the climate goals of the Paris Agreement.

The EAPB welcomes the EU's focus on building up functioning market taxonomy. Although our Association represents public law entities, we cannot stress more the need to involve all financial market participants, public or private, in the design of the Taxonomy to the largest possible extent. At the end of the day, a successful transition towards a sustainable financial market will need to be driven by all market players.

II. EAPB Policy Recommendations

1. Learn from the market

The emergence of a market for green and sustainable financial products has until now primarily been driven by market participants. Achieving the objectives of the taxonomy will require its acceptance by issuers and investors. Restrictive criteria or costly administrative burden could stifle growth and innovation in a market that is still in its infancy. The formulation of the taxonomy should take stock from the existing market-driven eligibility and classification systems that have proved to be functioning well both for the market and from a sustainability perspective. The taxonomy should furthermore provide the flexibility to allow further market driven innovation. Alongside the Green Bond Principles, this should include social and sustainability bonds, and relevant multilateral frameworks.

Within a market-driven solution, a taxonomy laying out a uniform classification and standards for green/sustainable financial products could still play an important role to increase transparency for investors, mitigate uncertainty on the issuers' side, and contribute to sustainable growth of the European economy. Absolute rules on whether an industry can or cannot qualify for the issuance of Green Bonds may be counterproductive. The most important criteria should be whether an investment labelled as "green" has promoted a shift from a "non-green" to a "green" solution. Investors would be the final judge on whether to put any given security into a "green" portfolio, but a unified "EU-green label" system could contribute to and support a pragmatic market-friendly solution.

To support projects with a positive impact on the society, environment, and the economy, it would be helpful to have a robust definition of "sustainable finance" respectively of "green" in terms of finance. Such definition should ideally be harmonized with all relevant "sustainability goals", such as the "EU 20/20/20 Targets", the Paris Agreement, the UN Global Compact Principles, the UN Sustainable Development Goals (SDG), etc.

2. Engage the market actors

The involvement of experts from the financial market, including the public banks, is essential for the success of the initiative. Besides the platform envisaged in the proposal, we strongly believe that all Level 2 measures further developing the taxonomy should be at all times transparently consulted through the mechanism of EU Public Consultations in order to keep an uninterrupted contact with the market, civil society, and other stakeholders. We truly value the transparent and consultative approach of the European Commission so far.

3. A long-term perspective

Long-term regulatory certainty is vital for a successful market. That means a clear and concrete taxonomy that builds on actual market experience and enables dynamic development in technologies and solutions that is needed in order to reach the global goals. On the other hand, the regulatory certainty also means avoiding frequent or unexpected changes to criteria or factors that would impact costs or cash flow projections in the development of the long-term framework or its amendments via L2 measures.

Reputable financial institutions, including the public banks in all their diversity, function in accordance with their long-term strategies and rock-solid business models. The policy-makers need to bear in mind that the key market actors will enter the sustainable financial market only with robust business cases and expectations of reasonable long term prospects.

4. No retroactive effects

As mentioned above, many public banks have already contributed significantly to the deployment of green and sustainable finance based on market based criteria. Sustainable investments in infrastructure, energy efficiency or water management are usually long-term ones; therefore it is of utmost importance that the upcoming EU framework does not affect investment activities approved before the future framework will have been implemented. The existing CSR frameworks and internal policies of public banks can possibly also be used in developing the taxonomy.

5. Contribution of the public banking sector

An essential prerequisite for the transition towards a low-carbon economy, and towards a sustainable financial market, is a strong project pipeline that will mobilize public and private resources. The business models of Europe’s public banks are quite diverse but a mission to finance environment-friendly projects in their jurisdictions is among the major elements they have in common.

Public authorities have responsibility for significant investments that should be geared to support a dynamic transition of the European economy and society. Public banks are vehicles to support the financing needs of public authorities and promote the political objectives of their public owners.