

EUROPE

KEY EVENTS TIMELINE



10 Year Reflections

United Nations Principles for Responsible Investment were launched in 2006, and in 2015 the Sustainable Development Goals were adopted. Since then, Europe has arguably led the way in developing regulation to drive climate action and responsible investment in the financial sector.

Increasingly, the financial sector in Europe (and globally) has assumed a more prominent role in addressing environmental and social challenges, and the expectation that financial institutions should be part of the solution to sustainability challenges has become deeply embedded ([Eurosif, 2022](#)). The consideration of sustainability risk has been recognised as an integral part of risk management. If these risks are neglected and accumulate over time there are potential implications for financial stability at a systemic level. Asset managers are now embracing better risk management and the ESG preferences of their clients in portfolios (*ibid.*).

The EU Sustainable Finance Action Plan and suite of accompanying regulations and legislation are arguably the most comprehensive of any region or country in the past 10 years. This is not to say that confusion around sustainability terms and concerns about greenwashing have been eliminated. Alongside reorienting capital flows towards sustainable investments, the regulatory and legislative interventions aim to increase transparency and provide clarity for clients selecting investment products.

10 Year Forward Look

Momentum is likely to continue on the Sustainable Finance Action Plan, with refinement of the Sustainable Finance Disclosure Regulation (SFDR) and additions to the sustainable finance framework. With the introduction of the Corporate Sustainability Reporting Directive, transparency on sustainability risks and the environmental and social impacts of companies, as well as financial institutions, will increase. As the market adapts to the new regulatory regime, the next few years will show if it has had the desired real-world impact.

Alongside the growing recognition of the importance of double materiality, investors will need to move beyond the integration of ESG risks and opportunities to achieving real world impact. As action on Europe's transition progresses, government collaboration with private actors on strategic projects will be essential. 90% of unaccounted carbon costs must be internalised by 2050, and public banks and governments are expected to foster Public-Private Partnerships and blended finance schemes. The industry should be preparing to support this work to transition the real economy ([Eurosif, 2022](#)).

In 2021, the historic UN Convention on Biological Diversity and Global Biodiversity Framework highlighted the importance of recognising the twin crises of climate and biodiversity. The EU has recognised the nature degradation crisis and made a biodiversity strategy part of the EU Green Deal.

Policy & Regulatory Drivers

Many of the provisions associated with the EU Sustainable Finance Action Plan came into effect during the reporting period and represent a step change for the investor community in how they measure and disclose the sustainability attributes of funds. One of the most significant changes is the introduction of double materiality, requiring transparency on both how sustainability risks are integrated in investment decisions and how investment decisions may impact the environment and society.

Further developments in European regulation include:

- ▶ [Climate Transition Benchmarks Regulation](#) was updated in November 2019 to create two new categories/labels of climate-related benchmarks: climate transition benchmark and Paris-aligned benchmark. The December 2020 update provided the minimum standards for both climate-related benchmarks. These benchmarks are intended to enable market participants to make well-informed choices through greater transparency.
- ▶ In July 2021, the European Commission published its [Strategy for financing the transition to a sustainable economy](#). The strategy reinstated the European Commission's commitment to the sustainable finance agenda and aimed to support the financing of the transition to a sustainable economy by proposing action in four areas: transition finance, inclusiveness, resilience and contribution of the financial system, and global ambition.
- ▶ The Taxonomy Regulation entered into force in July 2020. It was complemented by further acts establishing its technical criteria. The [Delegated Act on sustainable activities for climate change adaptation and mitigation objectives](#), as well as the [Delegated Act supplementing Article 8 of the Taxonomy Regulation](#). A further complementary Delegated [Act on climate, introducing nuclear and gas energy under specific conditions](#) entered into force in August 2022.
- ▶ The [Sustainable Finance Disclosure Regulation \(SFDR\)](#) started to apply from March 2021, imposing mandatory ESG disclosure obligations for asset managers and other financial market participants. SFDR introduced sustainable investments (often referred to as Article 9 products) and products with ESG characteristics (so-called Article 8 products). Together with the EU Taxonomy, SFDR created a new sustainability-related disclosure framework for financial market participants and financial advisers with regards to the integration of sustainability risks and the consideration of adverse sustainability impacts in investment processes. However, the market has started using SFDR as a de facto classification system which has attracted some controversy.
- ▶ The updates to the [MiFID II sustainability assessment](#) incorporating the sustainability preferences of clients were published in August 2021 and started to apply in August 2022. The preferences test has three options: an EU Taxonomy alignment, a percentage in sustainable investment as defined by the SFDR, or products which consider, on a quantitative or qualitative basis, principle adverse impacts. Clients can choose from these three options, and the advisor must ensure the product offering matches the preferences.

This suite of legislation and regulation has grown from a need for clearer legal definitions and greater transparency and accountability in sustainable investment. The EU Taxonomy and SFDR has begun this work to define sustainable investments and enforce effective sustainability-related disclosure.

Industry Collaboration

A range of investor stakeholders joined the European Commission's [Platform on Sustainable Finance](#), which was first established in October 2020. The Platform is an advisory body working on the development of the technical screening criteria complementing the EU Taxonomy, its implementation and useability and its interactions and consistency with the sustainable finance framework more broadly.

There are over 400 signatories of Climate Action 100+ in Europe. In 2021, Climate Action 100+ reported that European investors secured a large number of significant climate commitments through private engagement – this followed an intense period of engagement and consideration of filing shareholder resolutions. 18 Climate 100+ companies also agreed to put their climate transition strategies to a voluntary shareholder vote during the European and Australian proxy seasons. These events were significant highlights for investor engagement in the 2021 proxy season ([Climate100+, 2021](#)).

Customer Drivers

2021 was a transition year as asset managers worked to comply with SFDR. It is expected that the range of sustainable funds will continue to grow as asset managers work to meet investor demand for investment choices that align with their sustainability and ESG preferences (Morningstar, 2022).

Retail investors are increasingly interested in understanding what impact their investments have on the world, demonstrated by both market developments and academic research ([Eurosif, 2022](#)). Increasingly, these ambitions are seen as being in line with investors' fiduciary duty. This trend is reflected in Invesco's 2021 survey, which found 79% of surveyed investors declared sustainability was important to how they invest, with 95% of under-45s saying it was important that their money was invested responsibly ([Invesco, 2021](#)).



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Market Drivers

By the end of 2021, Europe continued to dominate the sustainable investment space, accounting for almost 80% of Q4 inflows (Morningstar, 2022). Product development and fund launches grew steadily over the reporting period, hitting a high of 204 in Q2 2021 (*ibid.*). Climate remained the most popular theme among new product launches.

As well as driving new product launches, the new EU regulation has prompted asset managers to review and rebrand their offerings to be SFDR compliant. Morningstar identified 536 repurposed funds in 2022, double the number in 2021 (*ibid.*).

The development of benchmarks and proliferation of ESG ratings and tools, show investors have considerable interest in companies' ESG performance. Investors have conveyed these preferences to the market, sending the signal that high value is placed on strong ESG performance ([Eurosif, 2022](#)).

Sustainable investment association in the region – Eurosif

Eurosif is the leading pan-European association promoting Sustainable Finance at European level – encompassing the EU, the wider European Economic Area (EEA) and the United Kingdom (UK). Eurosif is a partnership comprised of Europe-based national Sustainable Investment Fora (SIFs). Most of the SIFs have a broad and diverse membership including asset managers, institutional investors, index providers and ESG research & analytics providers. More information can be found on [Eurosif's website](#).

