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EPFSF lunch
CMU and Sustainable Finance

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11TH July 2018

What is the role of your particular sector (banks, insurers, investors, public authorities, stock exchanges...) in promoting sustainable finance and what are the right tools and incentives to move forward?

Good afternoon. Thank you for your kind invitation. It is a great opportunity to share the views from the banking industry perspective.

Banks for sure have a key role in sustainable finance using our knowledge and capabilities to create a positive impact in people's lives.

The EBF, which gathers 32 banking associations representing 3,500 banks that finance around 80% of the economy in Europe, is fully committed to promote sustainable finance. The EBF SFWG, that I have the honour to chair, has defined as its top priority to fully engage with the European Commission.

Surprisingly, the EBF has not been selected to be member of the Technical Expert Group on sustainable finance, and banks are minimally considered in the two key first legislative proposals regarding taxonomy framework and disclosure. In fact banks aren't even considered as financial market participants.

In any case EBF is ready to provide the Commission with timely, holistic and relevant input on the key aspects of the Action Plan.

On the other side, let say also that through individual and collective action, European banks have shown visionary leadership in tackling the urgent challenge of climate change and sustainable development:

- Lending to companies and households;
- Issuing its green and social bonds;
- Underwriting companies' bonds;
- Providing advice to retail & institutional investors investing through capital markets; and
- Promoting industry standards as Green Loan Principles

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In our case as BBVA we have recently announced the Pledge 2025, our strategy on climate change and sustainable development. A strategy based on three pillars:

a) FINANCE: We will mobilize €100 billion to halt climate change and achieve the SDGs.

b) MANAGE: We will work to align our activity with the climate objectives of 2º scenario. We are the first bank in the world to disclose our exposure to fossil fuels

c) ENGAGE: We will engage with all stakeholders to collectively promote the financial sector's contribution to sustainable development.

Last but not least, banks also contribute through different initiatives in cooperation with the public sector. Two good examples are UNEP FI Pilot programme to implement the TCFD recommendations and the UN Banking Principles participated by 26 banks.

Regarding the EC Action Plan on Sustainable Growth, which are in your opinion the three measures that could have greater impact in society's welfare?

For sure, we understand that the Action Plan is a very comprehensive document but we would highlight

Action 1 a clarification on what we mean by sustainable activity is the first big step. If done properly, it will accelerate market growth not only on sustainable investment but also on sustainable lending where banks play a fundamental role.

In our opinion action 2 with the definition of labels and standards is also critical, especially to fuel retail market. It will help citizens in their financial decision making and promote more sustainable behaviours.

And the third one would be action 10 "fostering more sustainable corporate governance and attenuating short-termism". The longer financial market participants decision-making time frame is, the more environmental and social challenges are prioritised.

And this is especially relevant for banks as we play a critical role building long-term relationships with our clients and customers through all our products and services such as mortgages or project finance.

What are the necessary measures to ensure the involvement of retail clients and citizens in the transition to a more sustainable economy and society? Is there any relevant issue missing in the EC Action Plan?

Banks are connected with the real economy but we are aware of the urgent necessity to reconnect with society in order to rebuild trust and reputation.

In this regard, we are increasing our efforts to ensure that we systematically place people at the heart of the companies' decision-making processes e must help our clients and customers to drive sustainable development and the transition to a low-carbon economy.

This is what top 26 banks are fostering through the Banking Principles which are being promoted by United Nations. We have the opportunity to reimagine banking. These principles will set the new standard and accountability model for banks worldwide.

Having said that, let's point out the missing elements on the Action Plan from our perspective:

- First, we notice a relevant shift on the first regulation package using the concept of sustainable investment as the whole when it is only a part. The Action Plan and the HLEG had a more holistic approach using sustainable finance, which is clearly a broader concept. We do not see the rationale behind this change. Are we missing for instance green loans as a tool to promote sustainable finance?
- Second, we have to keep in mind that sustainability broadly covers environmental, social and governance (ESG) concepts. However, the legislative proposal on the framework only proposes a definition for the environmental issues and delays social issues to be considered only from December 2021. We believe it is clearly too late. We should aim for a more holistic approach to sustainable finance from the beginning.
- And third, we would also like to mention Financial Education. We believe a clear reference to financial literacy is lacking given its relevance for the achievement of the SDGs and for financial stability. The EU needs to make financial education a component of this Action Plan and the Capital Markets Union strategy. In fact it could be an enabler in connection with Action 4 of the Action plan, integrating ESG considerations in financial advice.

There is ongoing debate on establishing a green supporting factor versus a brown penalizing factor. The Commission's legislative proposal on taxonomy focuses more on developing positive rather than negative criteria. What do you think the correct approach would be? Why?

An adequate internalization of the negative externalities and a proper incentive system are key.

The consideration of linking financial sustainability to capital requirements is an ongoing debate and it has to be carefully assessed in order to avoid unintended consequences.

Currently, prudential regulation is broadly risk based. Therefore, it seems quite reasonable that any supporting or penalizing factor should be backed by a robust empirical analysis based on data that evidences a lower or a higher financial risk.

In brown penalizing factor we should also consider that some of these industries are still subsidized so we should avoid inconsistent policies. Moreover, we should recognize that according to e450 scenario our energy will still depend 60% on fossil fuels in 2050.

In our opinion it would be better to follow a sequential approach: first taxonomy & disclosure; second, risk measurement; third, if there is evidence, propose prudential requirements. This will ensure that both borrowers and lenders know where they stand when taking decisions.

However, this sequential approach cannot be too extended in time. Maybe it could be accelerated in certain assets as home mortgages linked to energy efficiency.

This approach is fully aligned with the amendment put forward in the European Parliament report on CRR.