European Standardization Organizations

Welcome to this webinar

Connecting European Sustainable Finance to Standardization

We start at 10:00 CEST

Your webinar moderator

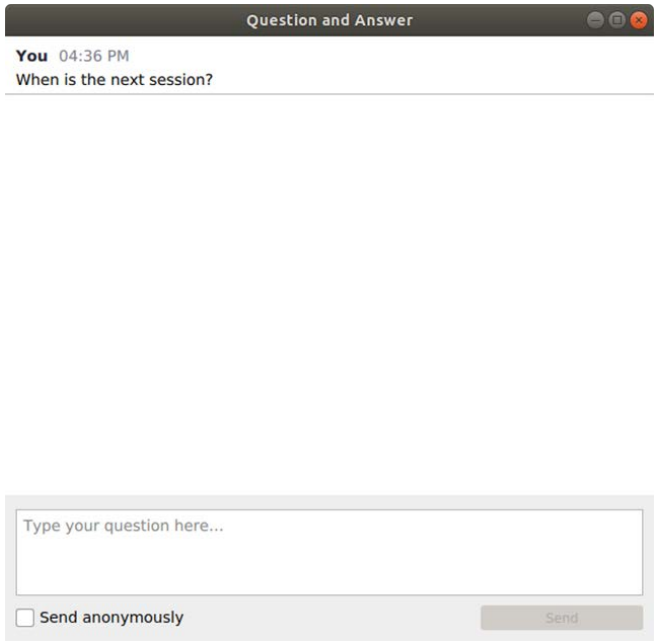
Els SOMERS

Project Manager Engagement Governance & Partnerships

esomers@cencenelec.eu

Get the most out of the webinar today

- Use the Q&A panel to submit your questions



- Talk about us on Twitter #training4standards @Standards4EU

Your speakers today

Bettina KRETSCHMER

Socio-Economic Analyst

EU Commission

Andrea NAM

Project Manager at
CEN-CENELEC

Franz KNECHT

Finance sector expert
Active in several TCs

Ettore PIANTONI

Vice Chair CEN/CENELEC SFEM
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Introduction & European Standardization

by Andrea NAM
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European Standardization Organizations

CEN - European Committee for Standardization

CENELEC - European Committee for Electrotechnical Standardization

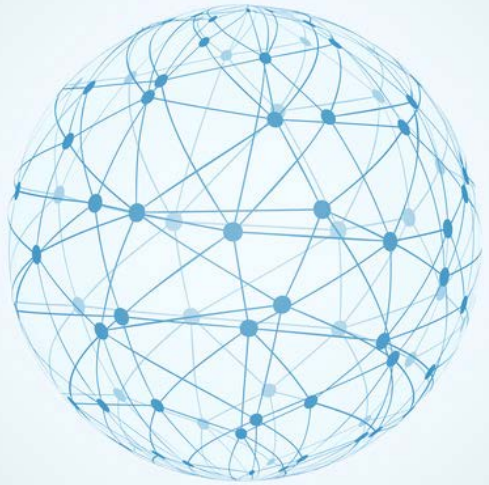
ETSI - European Telecommunications Standards Institute

→ Recognized by European law (EU Regulation 1025/2012)

The network of CEN and CENELEC

More than **200 000 experts** are connected

- 34 **national members**
- **European organizations** - *associations and federations of businesses, consumers, environmental and societal organizations, etc.*
- **Institutions and governmental bodies** *(including the European Commission (EC) and the European Free Trade Association (EFTA))*
- **Affiliates** - the national standards bodies in countries that are cooperating with the European Union
- **International cooperation** *with ISO and IEC & regions and countries outside the European Union and EFTA*



Standardization happens at different levels

Aim: identical standards in Europe and worldwide

National

European

International

What is a Standard?

Technical documents designed to be used as a rule, guideline or definition, which are:

- ✓ Produced by all interested parties in a **transparent**, **open** and **consensus based** process
- ✓ Intended for a **common and repeated use**
- ✓ **Voluntary** in use
- ✓ Approved by a **recognized body**
- ✓ Possible tools to underpin **legislation**

EUROPEAN STANDARD EN 50575

NORME EUROPÉENNE

EUROPÄISCHE NORM September 2014

ICS 13.220.50; 29.060.20

English Version

Power, control and communication cables - Cables for general applications in construction works subject to reaction to fire requirements

Câbles d'énergie, de commande et de communication - Câbles pour applications générales dans les ouvrages de construction soumis aux exigences de réaction au feu

Starkstromkabel und -leitungen, Steuer- und Kommunikationskabel - Kabel und Leitungen für allgemeine Anwendungen in Bauwerken in Bezug auf die Anforderungen an das Brandverhalten

This European Standard was approved by CENELEC on 2014-08-11. CENELEC members are bound to comply with the CEN/CENELEC Internal Regulations which stipulate the conditions for giving this European Standard the status of a national standard without any alteration.

Up-to-date lists and bibliographical references concerning such national standards may be obtained on application to the CEN-CENELEC Management Centre or to any CENELEC member.

This European Standard exists in three official versions (English, French, German). A version in any other language made by translation under the responsibility of a CENELEC member into its own language and notified to the CEN-CENELEC Management Centre has the same status as the official versions.

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CENELEC

European Committee for Electrotechnical Standardization
Comité Européen de Normalisation Electrotechnique
Europäisches Komitee für Elektrotechnische Normung

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Ref. No. EN 50575:2014 E

Harmonization effect

Why are European Standards so unique ?

1 European Standard

⬇

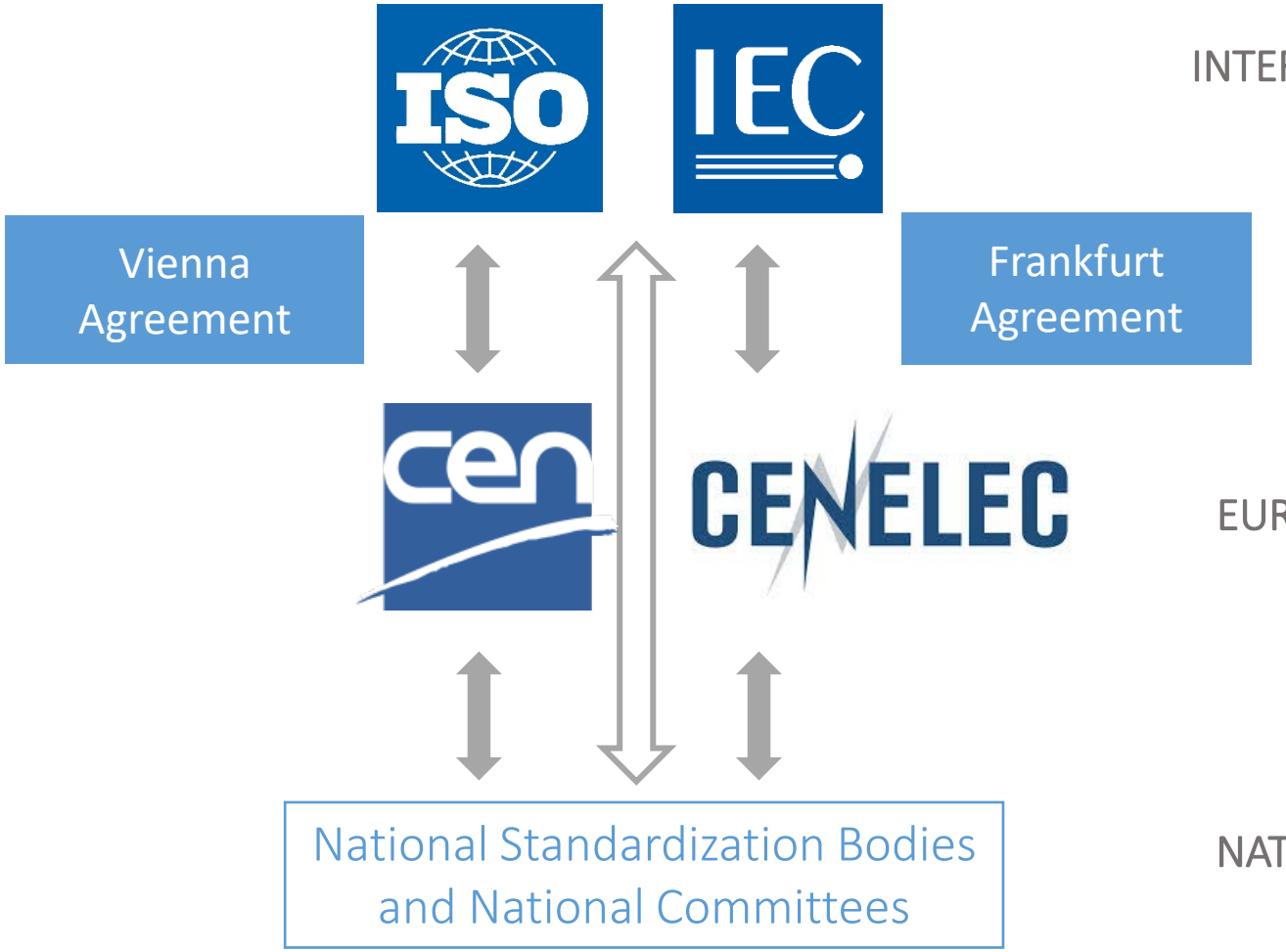
34 identical national standards

All conflicting standards removed

⬇

Access to a market of 600 million consumers

International dimension



INTERNATIONAL LEVEL

EUROPEAN LEVEL

NATIONAL LEVEL

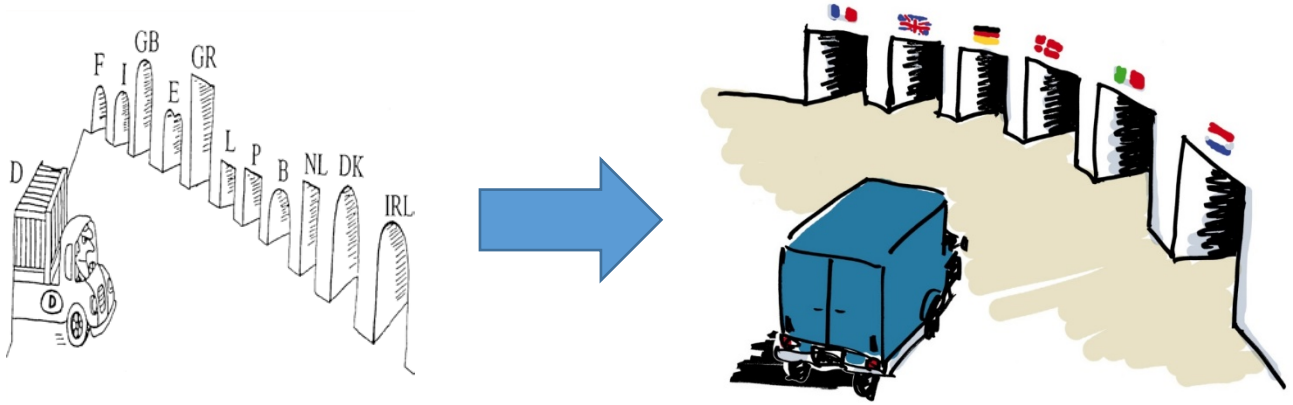
Vienna (ISO-CEN) and **Frankfurt** (IEC-CENELEC) **Agreements**

Principal aim: Identical European and international standards

CEN: over 30% of portfolio identical to ISO

CENELEC: close to 80% of portfolio identical to (+ another 6% based on) IEC standards

Standards Remove (trade) barriers



European standards apply across Europe and if they become international standards, they apply **world-wide**

Standards – market and policy tool

- ✓ Key role for the competitiveness of the European industry: business led & market driven standards
- ✓ Standards support the implementation of European policies and legislation
- ✓ Trust & Market access: recognized businesses and by regulators
- ✓ Strong international dimension through ISO and IEC

What is considered Sustainable Finance?

Integration of the environmental, social and governance criteria into investment decisions of the finance sector.

Objective: investments support sustainable growth and the transition to a climate-neutral economy.

Society - call upon the financial sector to contribute to a sustainable future

Regulators and authorities - elaborate requirements which financial institutions will have to comply.

Standards - reliable tool for connecting the finance sector needs with business investment needs

Standardization and Sustainable Finance

- The standards development in this field is followed up by:
  - Strategic Advisory body on Environment (SABE)
  - Sector Forum Energy Management and energy Transition (SFEM)

- Sustainability-related aspect - mainly done at International level with significant European lead

- Energy-related aspects – CEN/CLC/JTC 14 ‘ Energy management and energy efficiency in the framework of energy transition’

The policy context

by Bettina KRETSCHMER

Socio-Economic Analyst

European Commission, DG Environment

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Introduction to the European Commission's work on Sustainable Finance

2018 Action plan on financing sustainable growth

2018 Action plan on financing sustainable growth

The Action Plan 2018 stretches across the whole investment chain

1	Taxonomy	Develop an EU classification system for environmentally sustainable economic activities
2	Standards and labels	Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market
3	Fostering investment in sustainable projects	Exploring measures to improve the efficiency and impact of instruments aiming at investment support. Mapping on investment gaps and financing.
4	Incorporating sustainability in financial advice	Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment.
5	Developing sustainability benchmarks	Develop climate benchmarks and ESG disclosures for benchmarks
6	Sustainability in research and ratings	Explore how credit rating agencies could more explicitly integrate sustainability into their assessments. Study on sustainability ratings and research and exploring possible measures to encourage their uptake.
7	Disclosures by financial market participants	Enhance transparency to end-investors on how financial market participants consider sustainability
8	Sustainability in prudential requirements	Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)
9	Strengthening sustainability disclosures by corporates	Enhance climate and sustainability-related information provided by corporations
10	Fostering sustainable corporate governance & promoting long-termism	Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments.

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The EU Taxonomy: Objectives

EU Sustainable Taxonomy

A **classification tool** to help investors and companies to make informed investment decisions on environmentally sustainable economic activities

- **Certainty** for economic actors and financial market participants
- **Protection** of (private) investors and reduced risk of greenwashing by **fostering transparency**
- **Mitigation** of market fragmentation
- **Basis** for further policy action

Reorienting capital flows towards sustainable activities and projects

6 environmental objectives

Climate Change

Mitigation

Adaptation

Technical Screening Criteria in the 1st Delegated Act

Other environmental objectives

Sustainable use and protection of **water and marine resources**

Pollution prevention and control

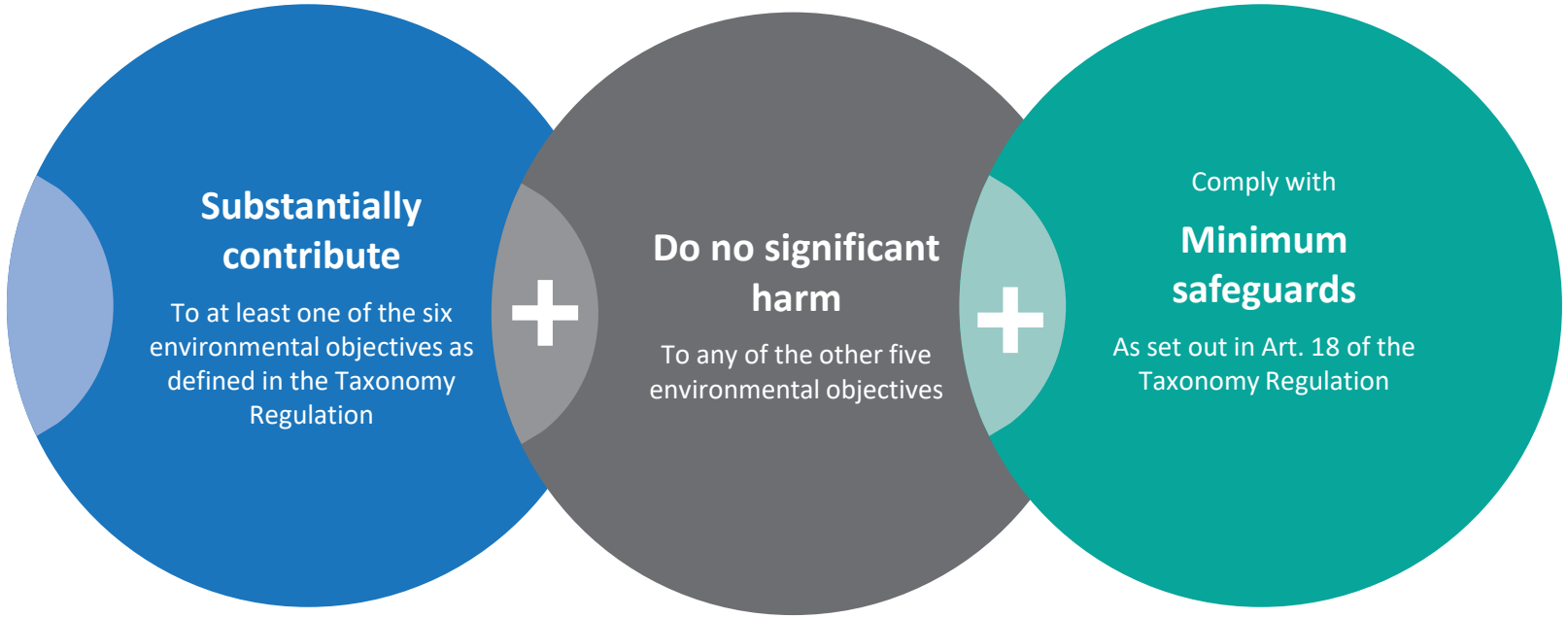
Transition to a **circular economy**

Protection and restoration of **biodiversity & ecosystems**

Technical Screening Criteria under development

Key features

- **Science-based**
- Leverage existing work
- Dynamic
- **Easy to use**



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The Taxonomy Regulation – Scope of uses

The Taxonomy Regulation mandates three user obligations

Financial market participants offering financial products in the EU, including occupational pension providers
Article 5 – Article 7

- How and to what extent the Taxonomy was used in determining the sustainability of the underlying investments;
- To what environmental objective(s) the investments contribute; and
- The proportion of underlying investments that are Taxonomy-aligned, as a percentage of the investment, fund or portfolio.

Large companies who are already required to provide a non-financial statement under the Non-Financial Reporting Directive
Article 8

The proportion of turnover aligned with the EU taxonomy;

CAPEX and, if relevant, OPEX aligned with the EU taxonomy.

→ KPIs for financial companies will be established in a seperate delegated act

The EU and Member States
Article 4

When setting out measures on standards or labels for green financial products or green (corporate) bonds

From the 2018 Action Plan to the Renewed Strategy

Action Plan on Financing Sustainable Growth → Renewed Sustainable Finance Strategy

Building on the 2018 Action Plan, the current context requires a more ambitious and comprehensive strategy

As the **EU moves towards climate-neutrality and steps up its fight against environmental degradation,** the financial and industrial sectors will have to undergo a large-scale transformation. Although the financial sector has already made considerable progress, its **transition is not fast enough to achieve the climate targets of 2030 and 2050, halt biodiversity loss and wider targets.**

The 2018 Action Plan addressed the needs that were identified in the financial sector. The **Renewed Strategy will shift the focus to the real economy and corporates, as well as to public authorities and citizens** to give everyone the necessary tools to transition from brown to green.

The **COVID-19** pandemic has shown the critical **need to strengthen the sustainability and resilience** of our societies and the ways in which our economies function. In the next years, a more sustainable financial system will be essential to ensure a **green recovery** from the crisis and support the prevention of other pandemics in the future.

EU Green Bond Standard (EU GBS)

The Commission will table a legislative proposal for an EU Green Bond Standard by Q2 2021

Proposed core components by TEG

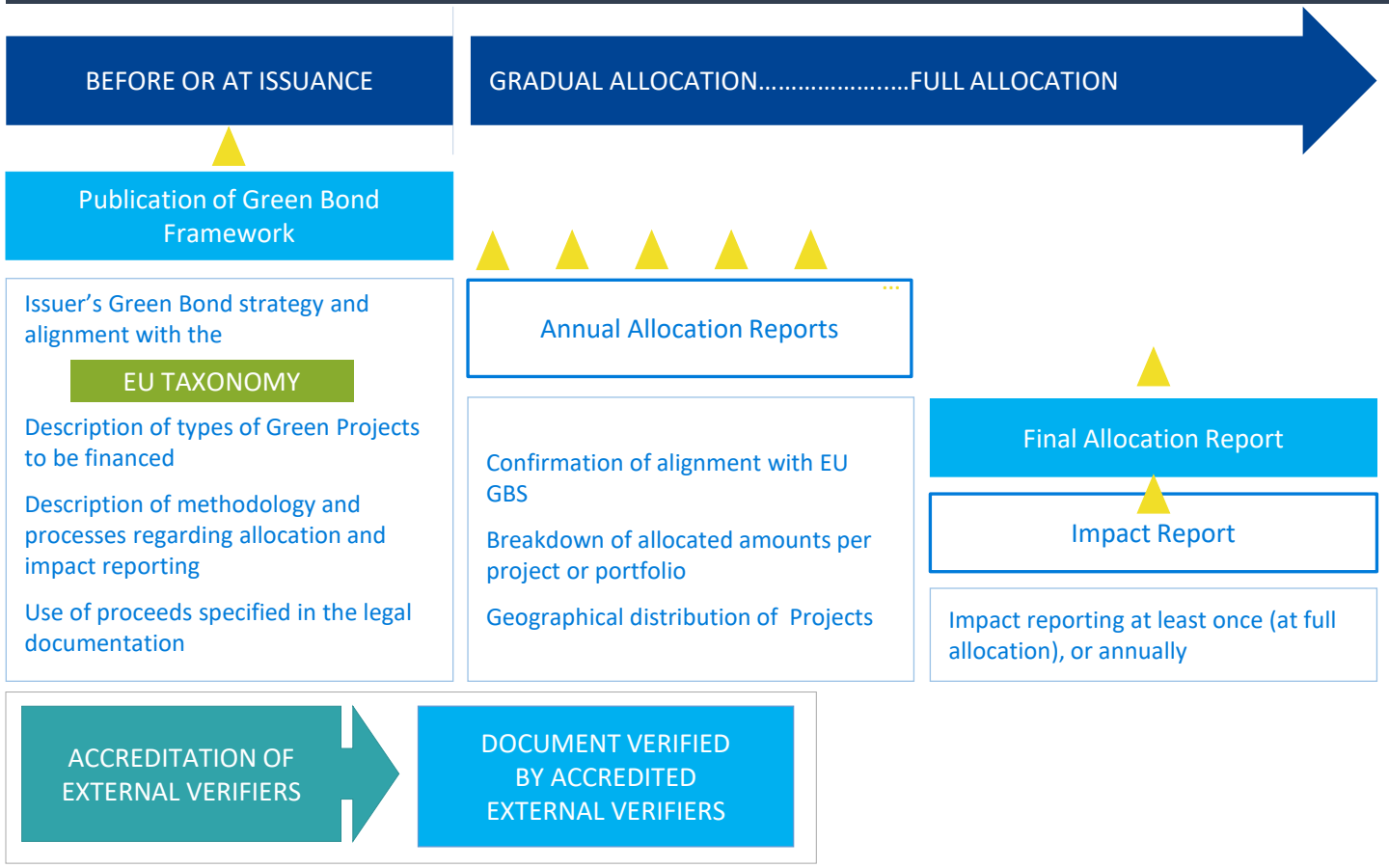
Alignment with EU taxonomy

Publication of a Green Bond Framework explaining the voluntarily alignment and investment strategy

Mandatory Reporting
Allocation report
Impact report

Mandatory Verification
by external reviewer

How would the EU-GBS work?

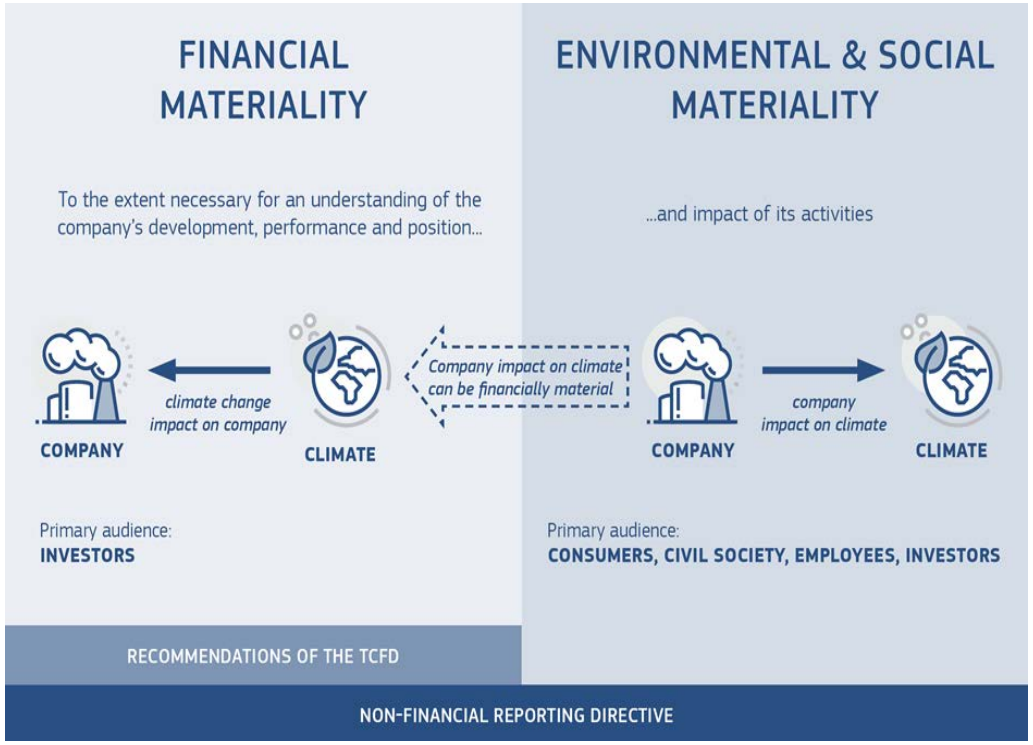


Review of the Non-Financial Reporting Directive (NFRD)

The Commission will adopt a proposal for the NFRD review in April 2021

Scope (which companies?)

- **Large companies** with listed securities, large banks, large insurance companies, with **> 500 employees**.
- **Exemption for subsidiaries**.



Problems for users

- Some companies report no information
- Companies that do report do not report all relevant information
- Information not comparable
- Information not reliable
- Problems of accessibility and usability (including digitalisation)

users' needs are not met

Problems for preparers

- Confusion and uncertainty about what to report.
- Pressure to respond to additional information requests regardless of non-financial statement.

unnecessary costs and burden

International Cooperation on Sustainable Finance

The EU's approach under the European Green Deal is going beyond the public sphere, with initiatives to mobilise international private investors

- The global nature of financial markets offers a great potential to help all countries on their transition path by linking financing needs to global sources of funding. This potential however, is still largely untapped.
- To mobilise international investors → promoting integrated markets for environmentally sustainable finance and, develop a coordinated approach, while respecting national and regional contexts
- This is the reason why the European Union together with relevant public authorities from Argentina, Canada, Chile, China, India, Kenya and Morocco launched on 18 October 2019:

International Platform on Sustainable Finance (IPSF)

Members

ARGENTINA, CANADA, CHILE, CHINA, EUROPEAN UNION, INDIA, INDONESIA, KENYA, MOROCCO, NEW ZEALAND, NORWAY, SENEGAL, SINGAPORE, SWITZERLAND

50% OF GLOBAL GHG EMISSIONS

45% OF GLOBAL GDP

50% OF WORLD POPULATION

Observers

OECD

THE COALITION OF FINANCE MINISTERS FOR CLIMATE ACTION

FINANCE UNEP INITIATIVE

European Bank for Reconstruction and Development

European Investment Bank

OICV-IOSCO

NGFS

The drivers of standardization

Franz KNECHT
Finance sector expert
ISO/TC 207 ‘Environmental management’
ISO/TC 322 ‘Sustainable finance’
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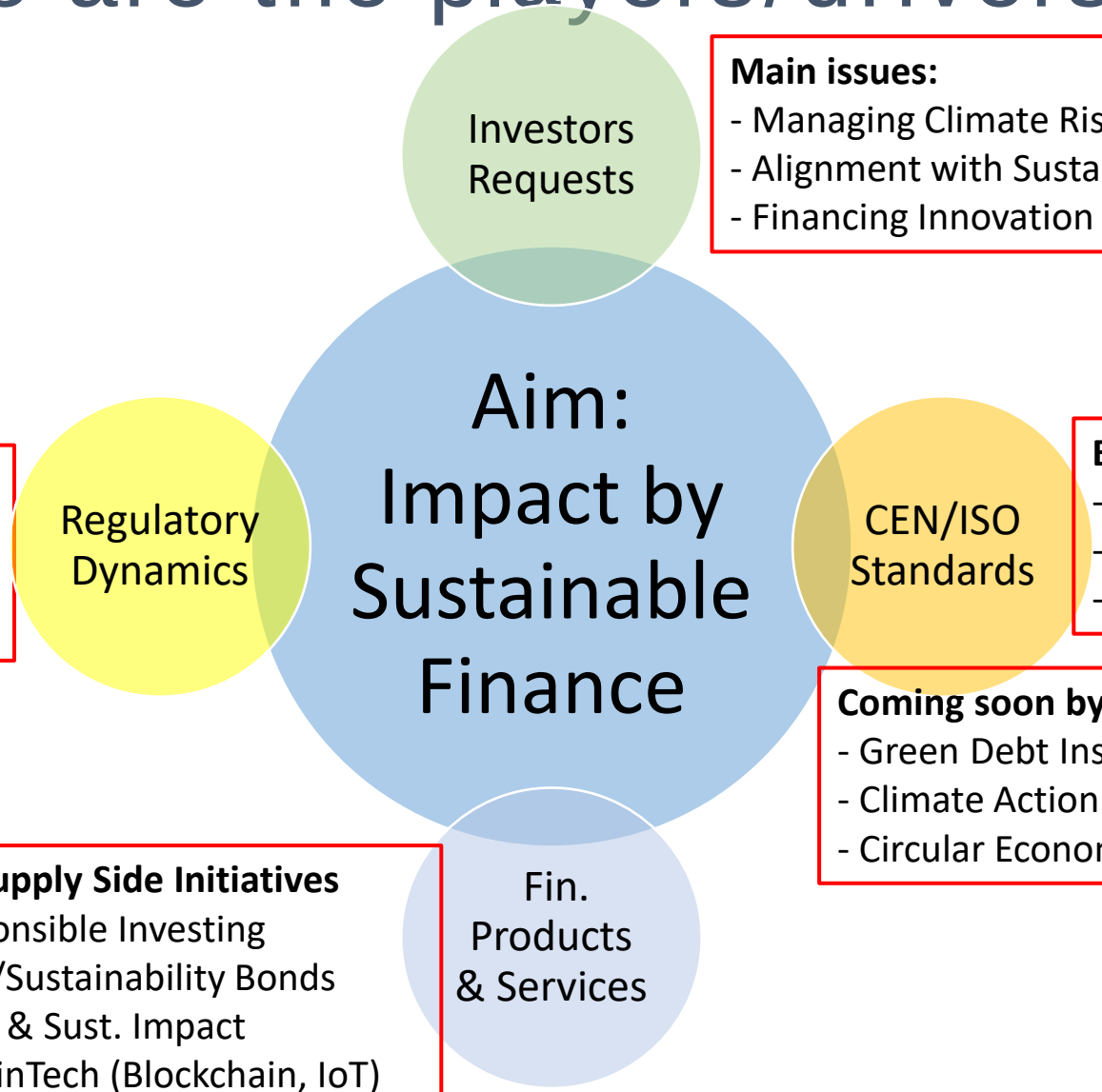
Context: Who are the players/drivers?



Main issues:
- Managing Climate Risks - 'Stranded Assets'
- Alignment with Sustainable Development Goals
- Financing Innovation – Identify Opportunities

Examples by EU:
- Corporate Non-Fin. Disclosure
- Taxonomy Greentech Financing
- Sustainable Finance Disclosure

Existing by ISO / CEN:
- ESG Management Standards
- Monetarization Env. Impacts
- Determining Costs & Benefits

Coming soon by ISO / CEN:
- Green Debt Instruments – Bonds/Loans ('21/'22)
- Climate Action by Investors – Documentation ('21)
- Circular Economy ('22)

Examples of Supply Side Initiatives
- Socially Responsible Investing
- Green/Social/Sustainability Bonds
- Balanced Fin. & Sust. Impact
- Sustainable FinTech (Blockchain, IoT)

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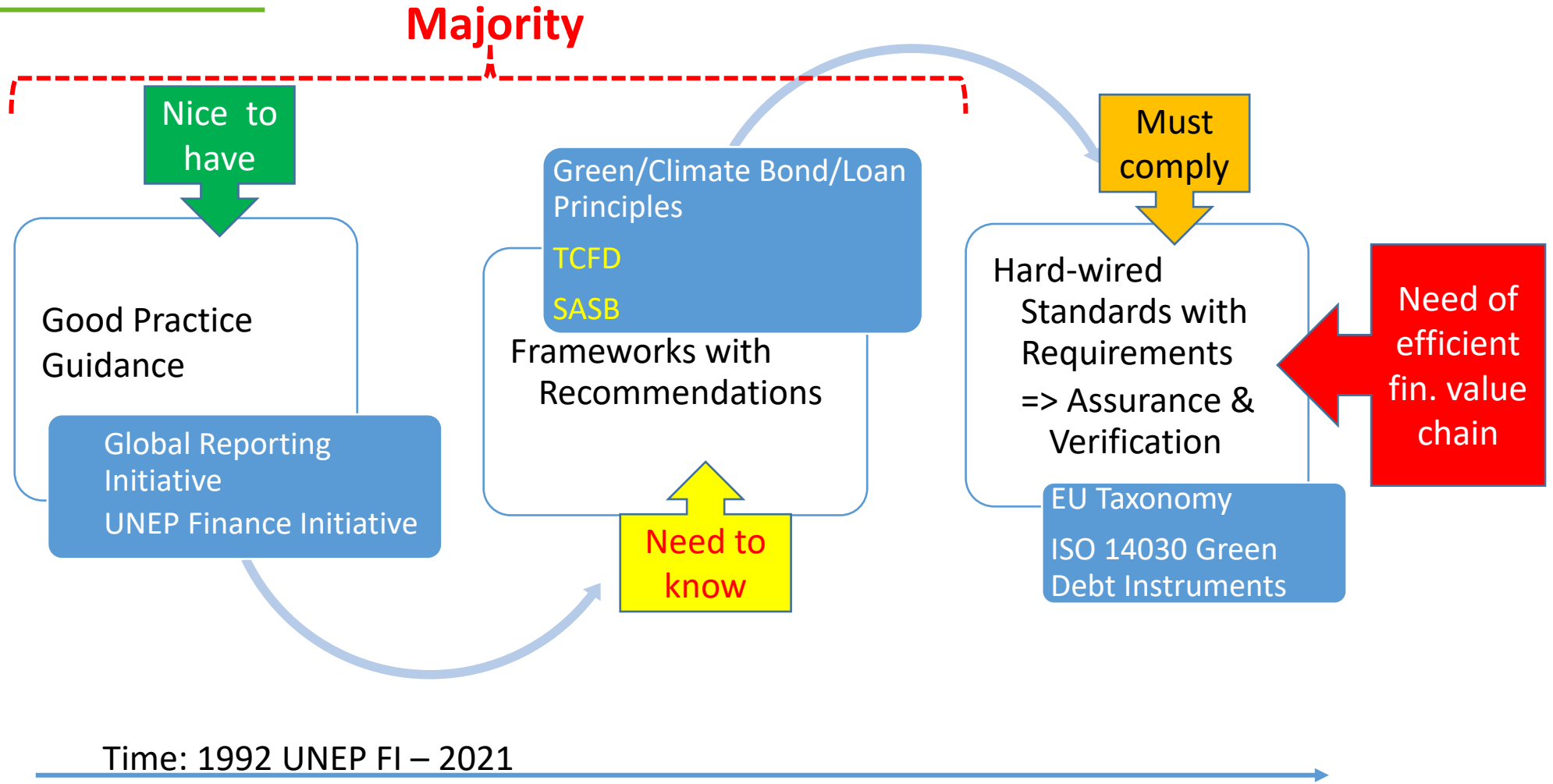
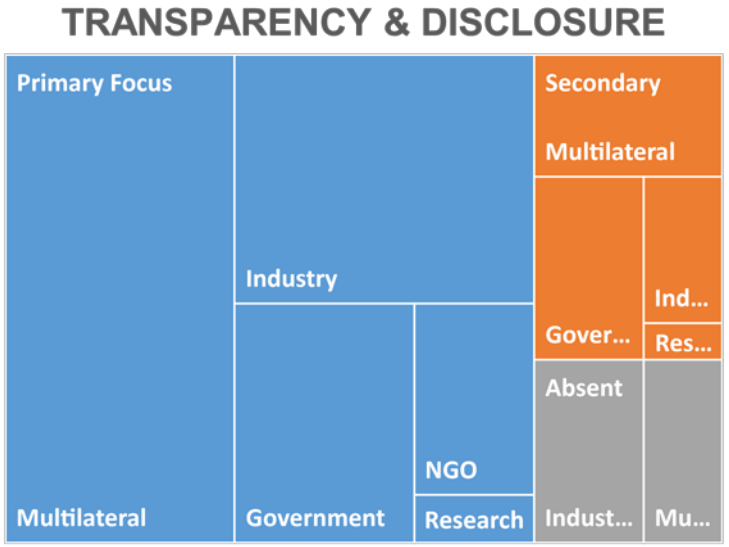
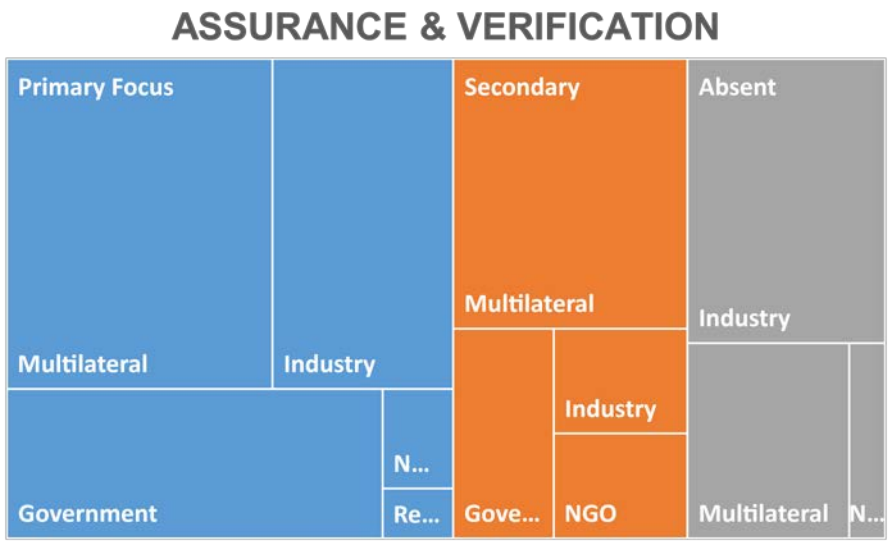
Content: What is out there available?

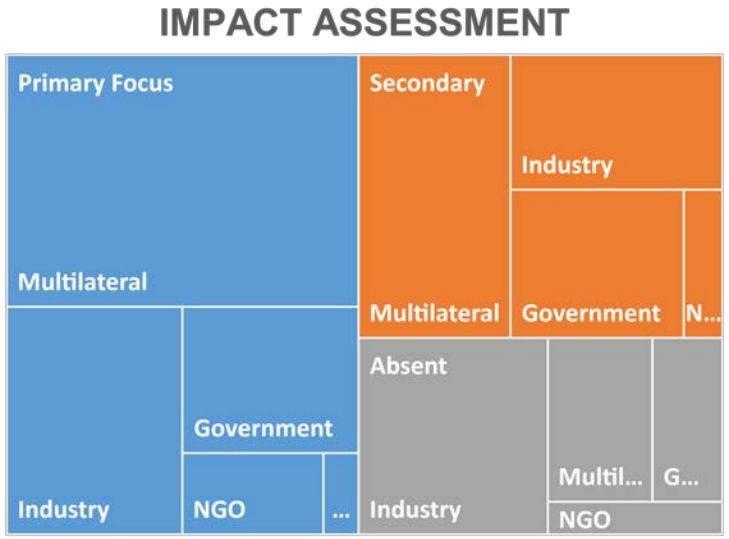


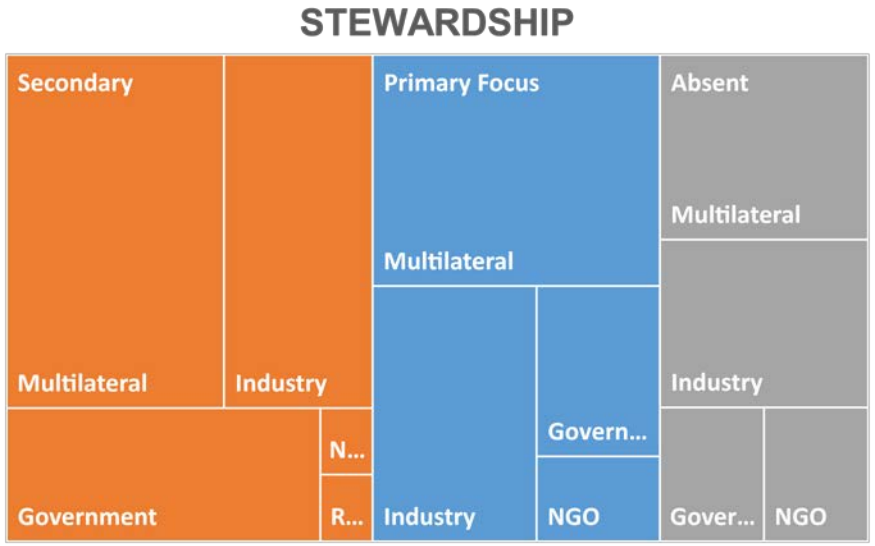
ISO/TC 322 Evaluation of Initiatives

- **Evaluation** of 122 globally active sustainable finance initiatives
- **Aim:** identify consensus or gaps for potential standardization by ISO
- **4 Topics**: impact, verification, transparency and stewardship
- **Drivers of initiatives**: multilateral = multistakeholder org., finance industry, governmental, NGOs, R&D
- **Prio**: Primary, secondary or absent focus and interest in 4 topics









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Standards by ISO / CEN

Management Performance in Sustainable Development

- ISO/TC 207 Env. Management

  Systems, Evaluation, LCA, Climate

- ISO/TC 309 Governance of Organizations

  Systems & Topics (Money Laundring)

- ISO/TC 322 Sustainable Finance

  Environment – Social – Governance

- ISO/TC 323 Circular Economy

  Resource Efficiency & Resilience

- ISO/TC 331 Biodiversity

  Ecosystems Services

Enhanced Coordination & Liaison with:

- ISO/TC 68 Financial Services

  e.g. TAG 1 FinTech

- ISO/TC 251 Asset Management

  Fixed & Financial Assets

- **CEN-CENELEC Joint TC 14** 'Energy management and energy efficiency in the framework of energy transition'

Standards by ISO / CEN - Monetization

EN ISO 14007 Guidelines for determining environmental costs & benefits (F. Knecht Workgroup Convenor)

Purpose / Scope: Costs & benefits of any organization's env. aspects affecting human wellbeing (utility), including concern/dependence on nature and ecosystem services.

User value: Results delivered **quantitatively** (non-monetary and monetarized), or **qualitatively,** for internal and external disclosure.

Main elements:

- **Determining environmental costs and benefits:** Qualitatively assessing environmental costs and benefits Quantifying in non-monetary terms Quantifying in monetary terms
- **Application, reporting and continual improvement:** **E**nv. costs and benefits used in specific applications Cost-benefit analyses & Aggregating costs and benefits Reporting & Continual improvement
- **Flow chart on determining environmental costs and benefits**
- **Examples of selected terms and concepts**

EN ISO 14008 Monetary valuation of environmental impacts and related environmental aspects (F. Knecht WG Expert)

- **Purpose / Scope: Expressing value in a common unit**, for use in comparisons and tradeoffs between different environmental issues and between environmental and other issues like economics.
- **User Value:** Understand an **organization's dependencies** on the environment by using all options for monetary values.
- **Main elements:**
- **Boundaries:** Elements of the total economic value captured
- **Requirements and procedures for mon. valuation:** Market price proxies - Revealed preference methods - Stated preference methods - Value transfer - Equity weighting – Discounting -Analysis of uncertainty and sensitivity
- **Linking monetary values of environmental impacts to related environmental aspects:**
- **Quality check & Reporting**
- **Flowchart on an application of this document**
- **Example of a database format**

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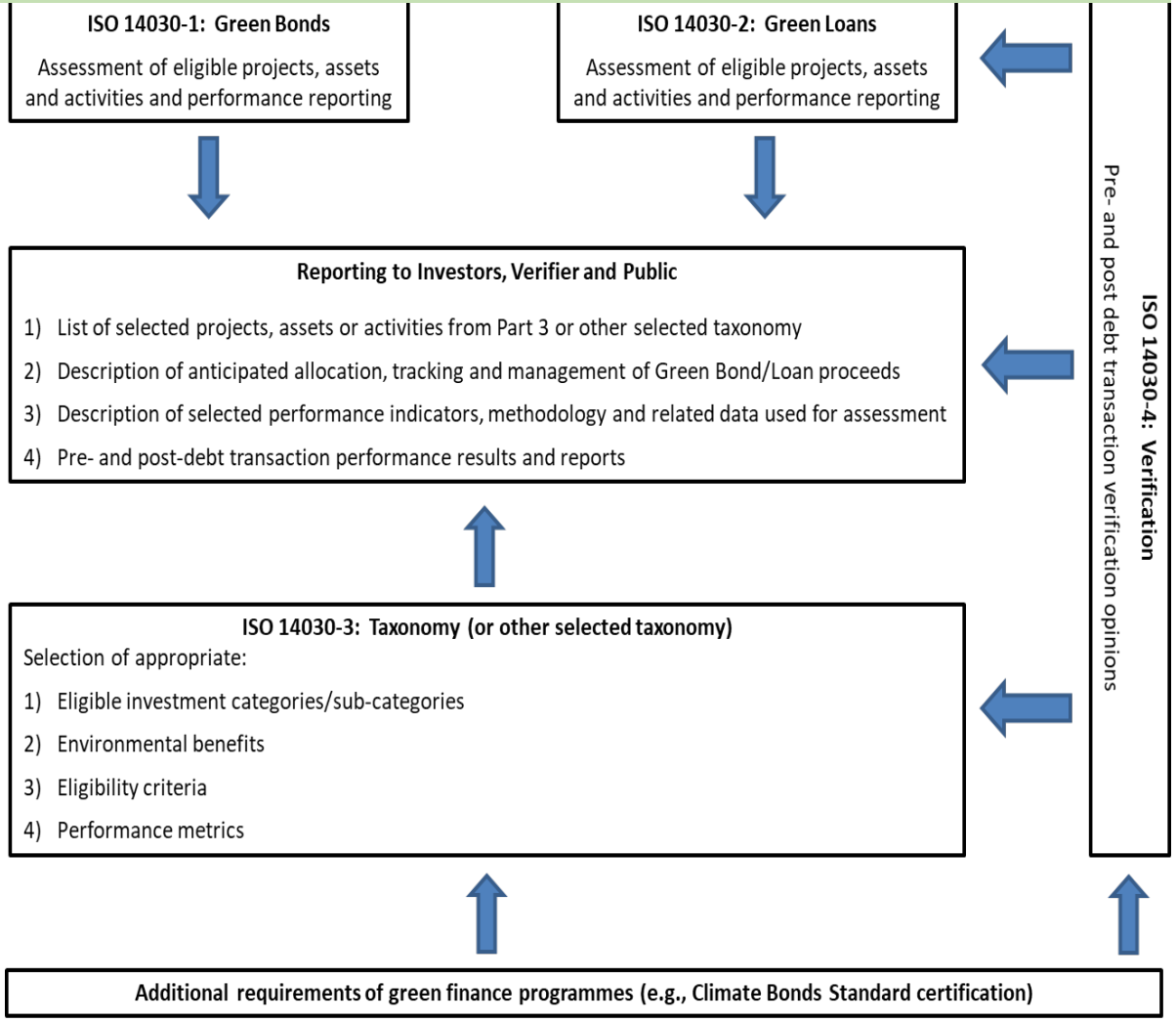
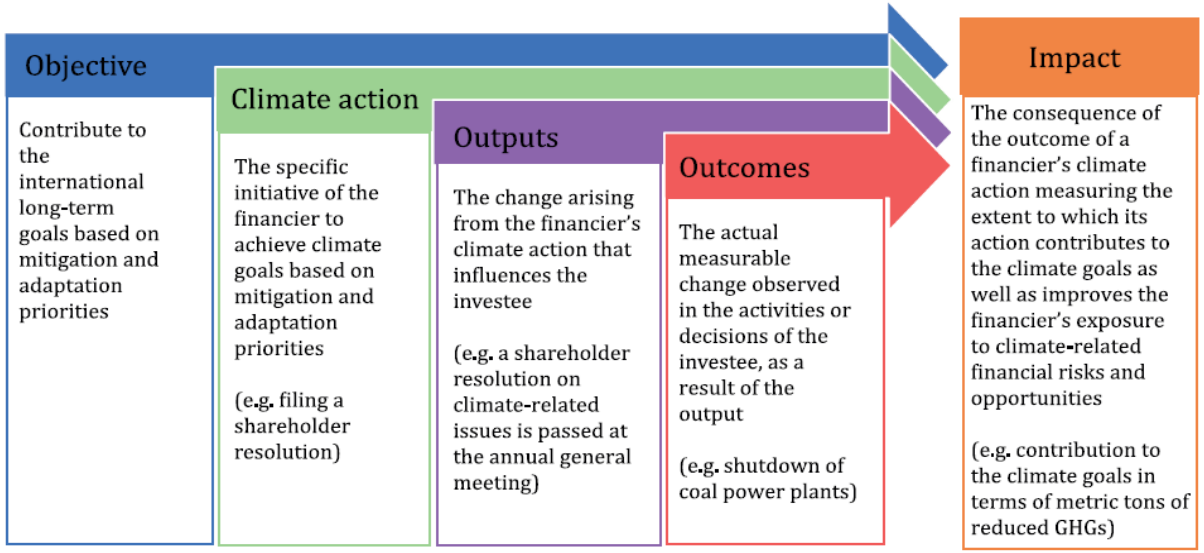
Standards by ISO / CEN – Green Finance

ISO 14030 Green debt instruments – Bonds & Loans



ISO 14097 Framework including principles and requirements for assessing and reporting investments and financing activities related to climate change

- **Purpose / Scope:** General framework, including principles, requirements and guidance for assessing, measuring, monitoring and reporting on investments and financing activities in relation to climate change and the transition into a low-carbon economy.
- **User Value:** Documenting the alignment (or lack thereof) of investment and financing decisions taken by the financier **Main elements:**



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Contribution of standards to sustainable finance

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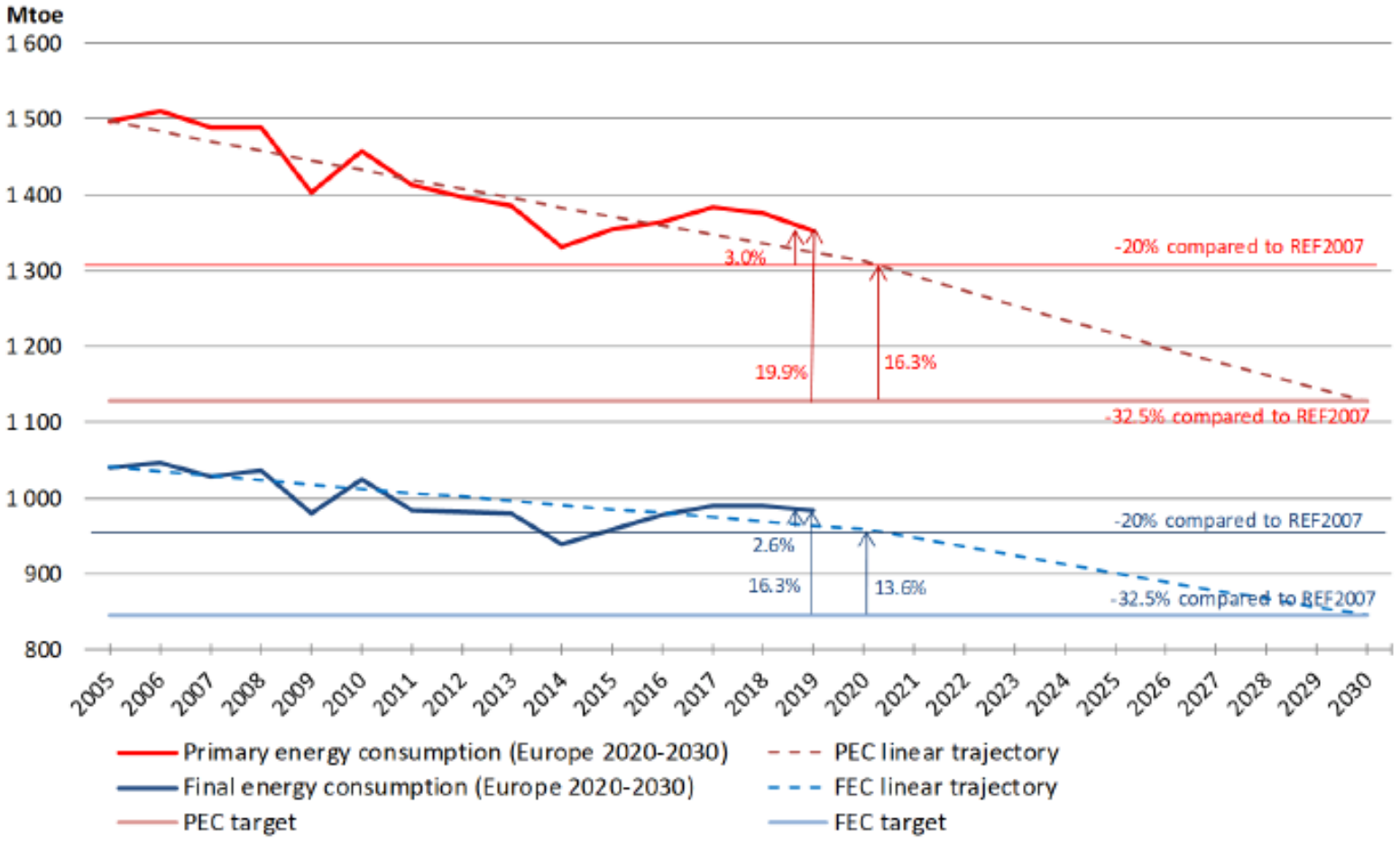
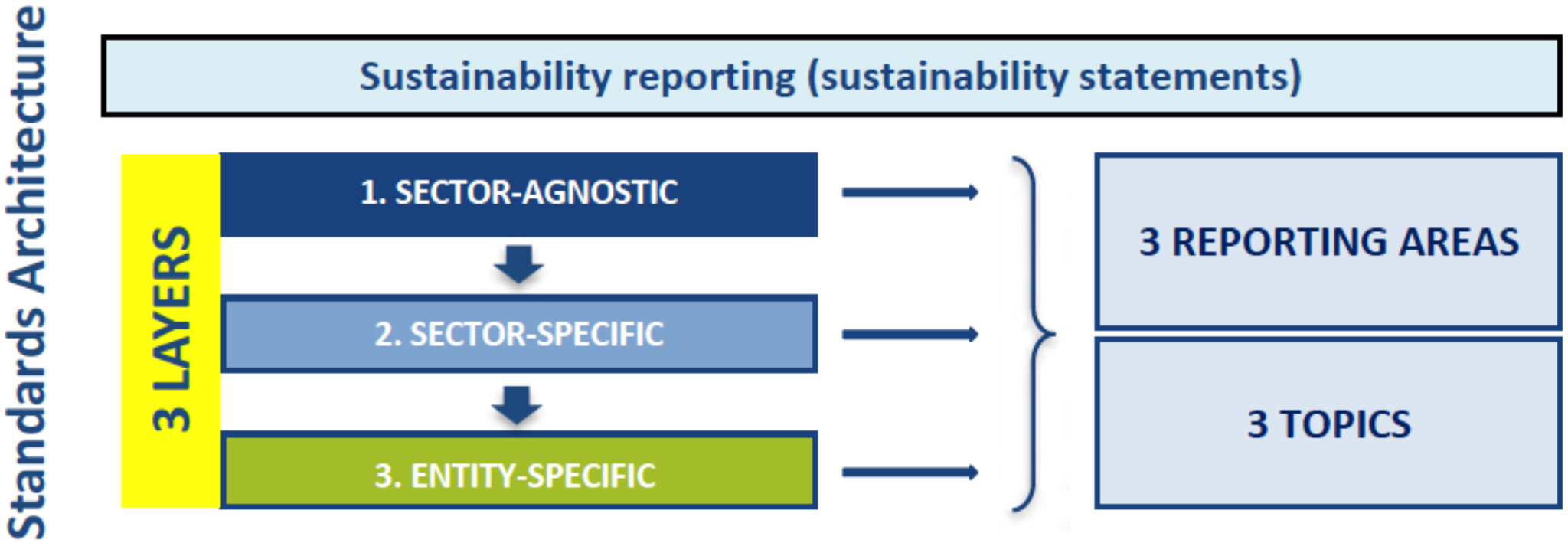
EU27 gap to EE 2020 Targets



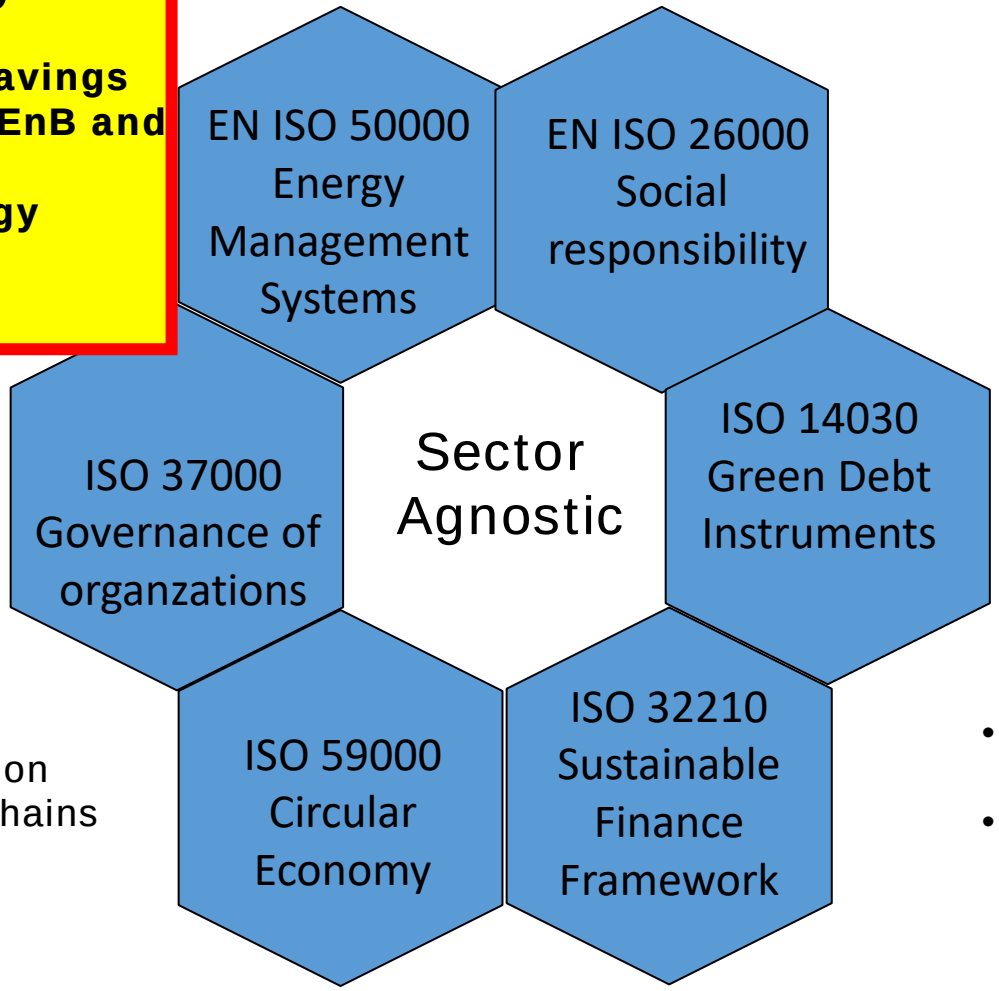
Architecture of EU standards for Non-Financial Reporting
EFRAG Task Force

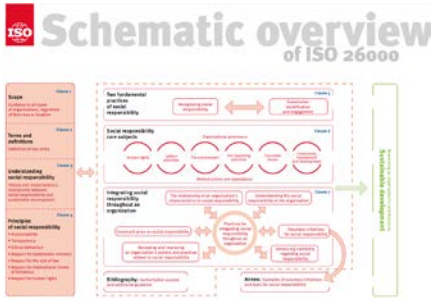


Source: EFRAG Final report proposals for a relevant and dynamic EU sustainability reporting standard setting. February 2021.

Architecture of Performance Standards

- **Energy management systems**
- **General methods for predicting energy savings**
- **Calculation and reporting on energy savings**
- **Measuring energy performance using EnB and EnPI**
- **Measurement and verification of energy performance of organizations**





- Guidance for governance of organizations
- Anti-bribery management systems
- Whistleblowing management systems
- Guidelines for efficiency measurement
- Compliance management systems

- 1: Process for green bonds
- 2: Process for green loans
- 3: Taxonomy
- 4: Verification

- Framework and principles for implementation
- Guidelines on business models and value chains
- Measuring circularity framework
- Performance-based approach

- Framework for sustainable finance principle and guidance
- Basic concepts and ley initiatives

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Overview of performance standards

ISO TC 301 Energy management and energy saving	CEN-CLC JTC 14 Energy Management and energy efficiency in the framework of energy transition
ISO/DIS 50005 Guidelines for a phased implementation -SME	EN 16247 1-4 Energy Audit (revision) General, Building, Processes, Transport
ISO/CD 50006.3 Energy management systems — Evaluating Energy Performance using Energy Baselines and Energy Performance Indicators	prEN 17463 Valuation Energy Related Investments
ISO/AWI 50010 Energy management and energy savings - Guidance for zero net energy in operations	prEN 17669 Energy Performance Contracting . Minimum requirements
ISO 50009: 2021 Energy management systems — Guidance for implementing a common energy management system in multiple organizations	EN 16325 Guarantee of Origin for electricity. Revision to include multi-energy carriers: hydrogen. Hydrocarbon gases, Heating and Cooling

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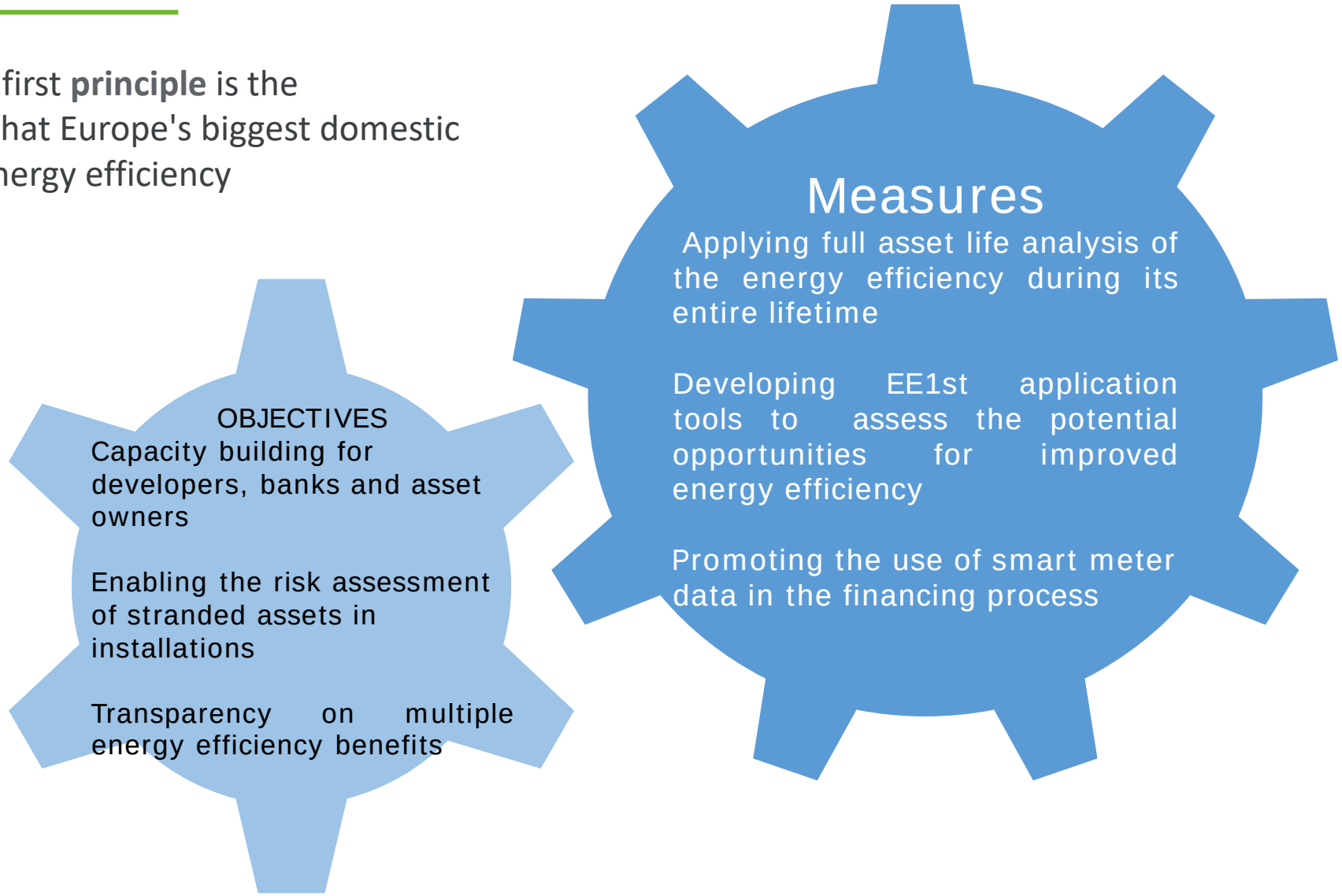
EE1st principle* guidance: financial aspects

*Energy efficiency first **principle** is the acknowledgment that Europe's biggest domestic energy source is energy efficiency



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How performance standards can turn metrics value into business value

Key benefits of applying the EU Taxonomy
1. Leveling the playing field in the banking industry and reputational enhancement, i.e. "reducing greenwashing".
2. A homogenous and rigorous evaluation of clients' environmental performance.
3. Supporting bank-to-client engagement efforts and bringing direction and confidence to banks' clients.
4. Increased business opportunities and potential increased demand for sustainable finance products.
5. Boosting the availability and quality of corporate data for sustainability.
6. Supporting harmonisation of reporting.
7. Fostering coherence and alignment with national and international standards.

Audience	Recommendations
Legislators and regulators should	
Recommendation 1	Take into account the **specificities of core banking products** which may limit a full application of the EU Taxonomy.
Recommendation 2	Ensure **consistency and compatibility/comparability of criteria** between the EU Taxonomy and other applicable legislation and regulations, including at national level.
Recommendation 3	Seek **global alignment of taxonomies**, facilitate international data collection and provide comparability mechanisms of criteria for **applicability of the EU Taxonomy beyond EU borders**.
Recommendation 4	Consider and seek **to address the timing mismatch** between corporate data availability and banks' ability to apply and disclose against the EU Taxonomy.
Recommendation 5	Facilitate the collection and **handling of data**, through the **development of tools** to facilitate the application of the EU Taxonomy.
Owners of standards and frameworks, labels and certification schemes should	
Recommendation 6	**Clarify alignment** with the EU Taxonomy.

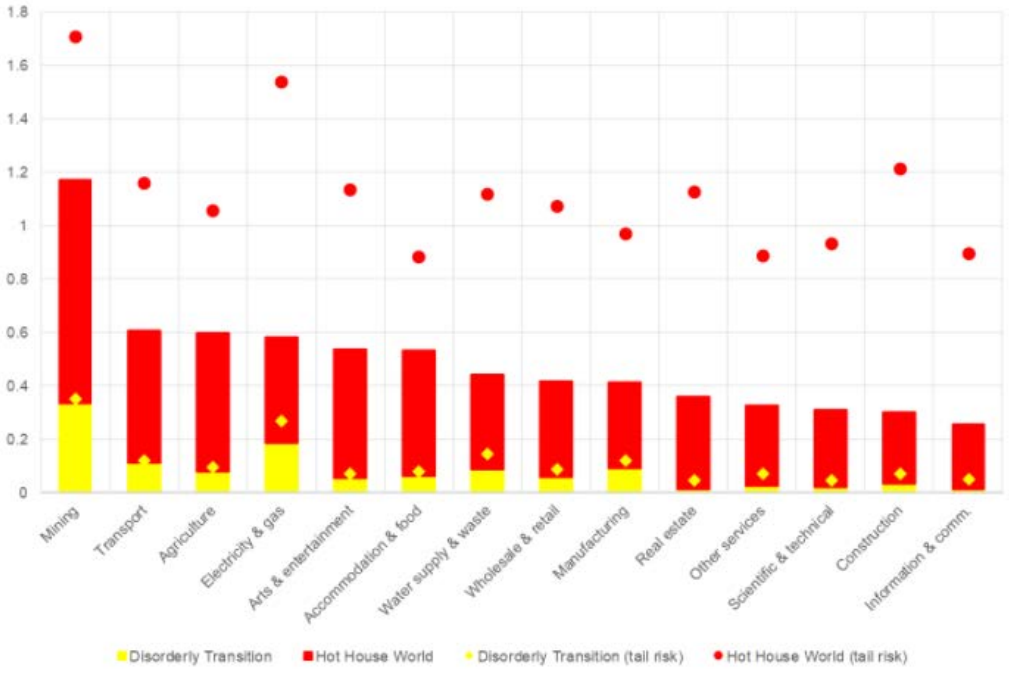
Source: EBF UNEPFI Testing the application of the EU taxonomy to core banking products: high level recommendations. January 2021.

Climate stress test

European Central Bank

Figure 4

Differences in firms' default probabilities (%) in the two adverse scenarios with respect to the orderly transition scenario, by sector and group of firms (mean firms, and firms mostly exposed to physical risk)



Source: ECB calculations

Note: the bars represent the median changes in default probabilities over the next 30 years; the dots instead report the changes in default probabilities when considering the firms that are most exposed to physical risk (95th percentile based on firms' physical risk score).

" ...The results show that default probabilities are always much higher in case of no transition to a greener economy, even when looking at different sectors. A disorderly transition would also lead to larger PDs than an orderly transition, however of lower magnitude with respect to the hot house world scenario. Additionally, the increase in PDs in case of a disorderly transition is more significant for the most polluting sectors,...."

[Source https://www.ecb.europa.eu]

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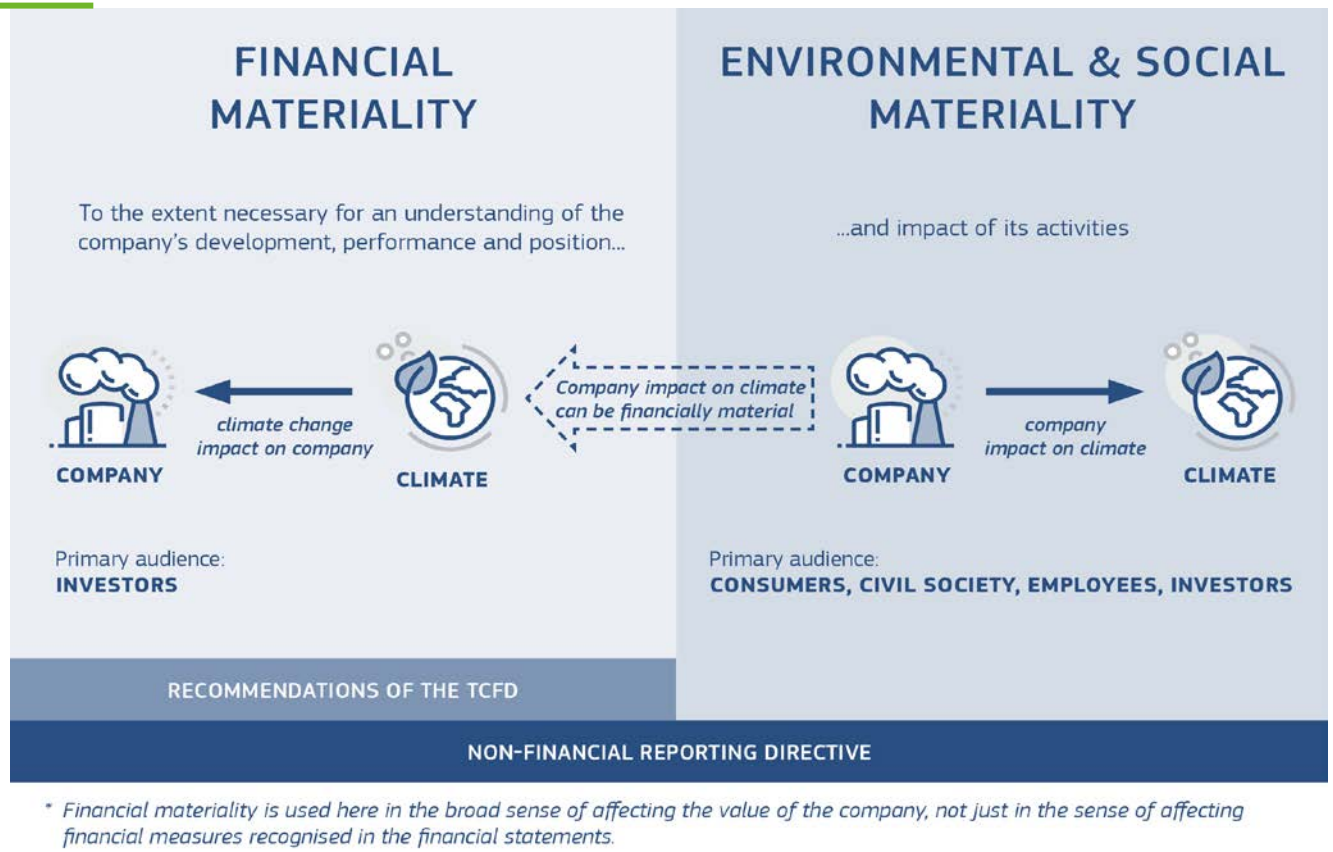
Double materiality
EU Commission



* *Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognised in the financial statements.*

Financial materiality addresses financial risks and opportunities, existing or potential assets and potential liabilities that are not recognised in financial reporting

Environmental & Social materiality addresses the level of significance and impact on the environment and people including through the value chain

Source: EU Commission guidelines on reporting climate-related information

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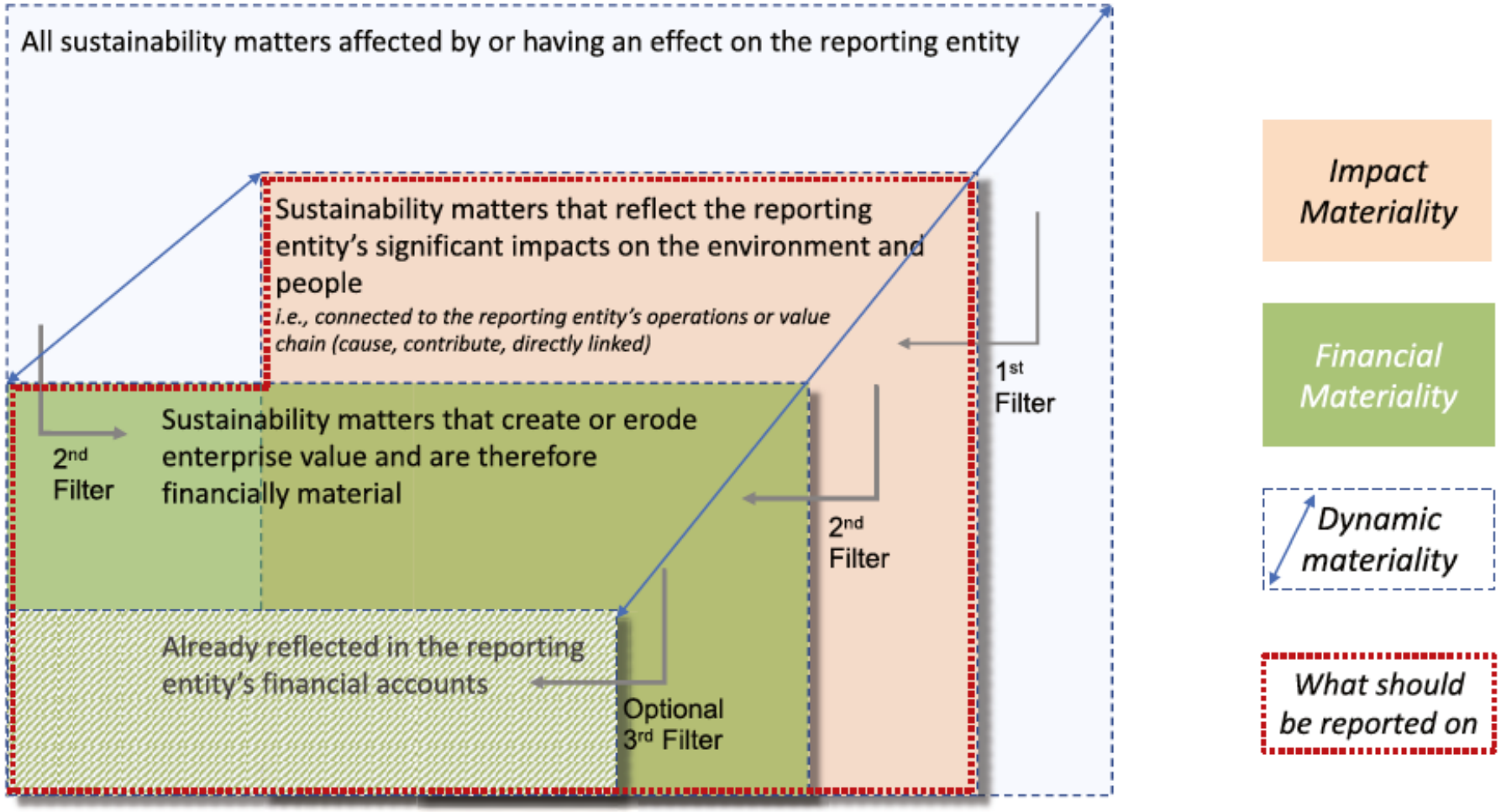
Standards enable Double Materiality and Dynamic Materiality

EFRAG Task Force



Source: EFRAG Final report proposals for a relevant and dynamic EU sustainability reporting standard setting. February 2021.

Connecting the dots to materialize green finance and scale up implementation

- Better data to make cost effective decisions (risks and (multiple)benefits)
- “Integrated” framework of performance standards (energy - environment – accounting) for reporting and disclosure
- The transition to a Greener Economy requires performance standards to manage risks and materialize (multiple)benefits

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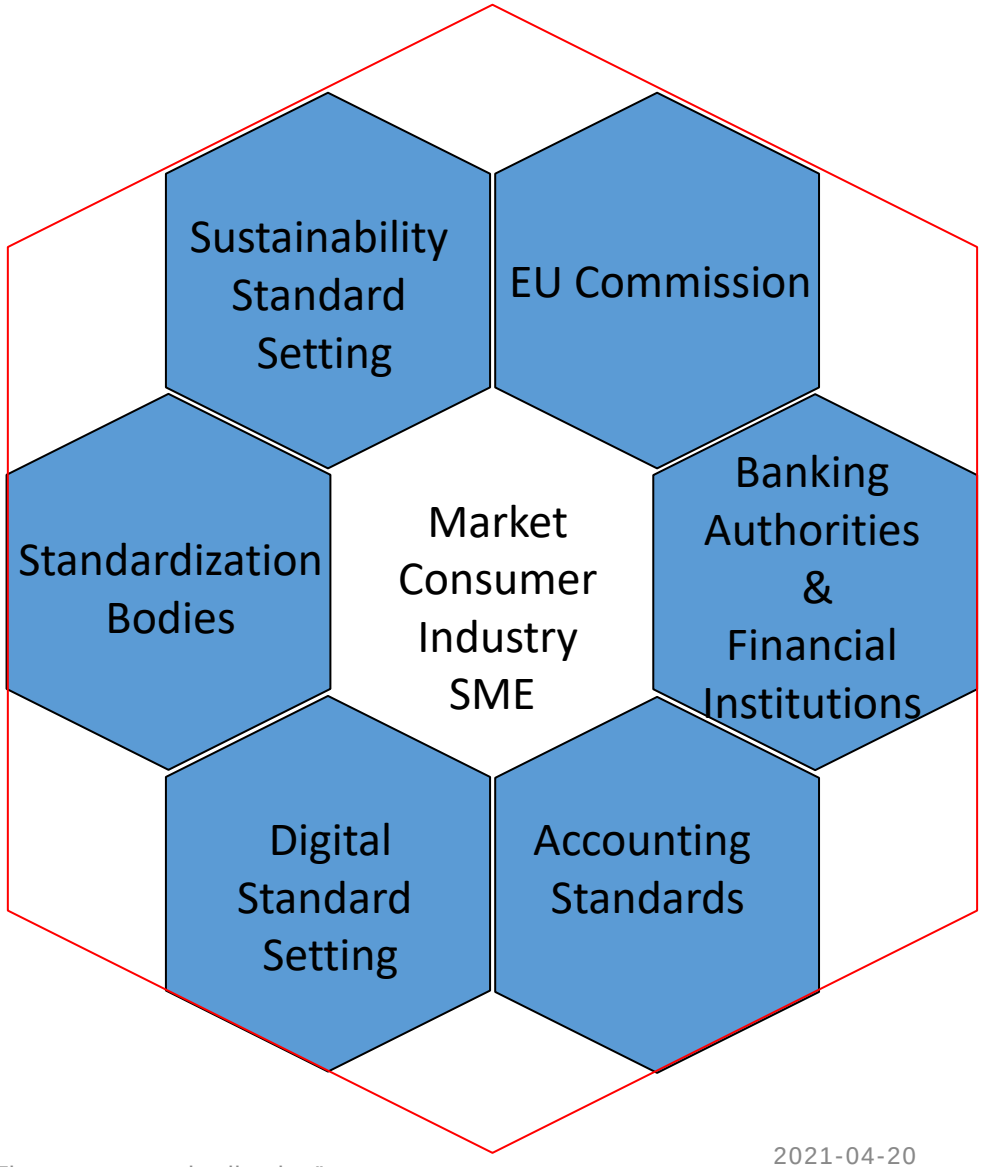
Possible way forward: Enabler Working Group

Define a common framework to integrate end to end the energy transition (multiple) benefits and risk assessment aligned with the EU ambition to become carbon neutral by 2050



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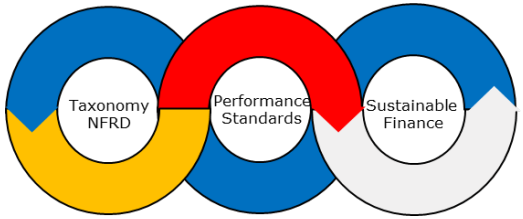
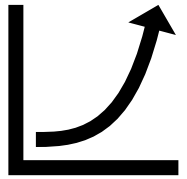
What is needed

- Performance standards turn metrics values into economic value

Performance Indicators ∞ Cash flow

- To scale up our ambition and materialize green finance we need an integrated standardized framework end to end





- Connect stakeholders needs and bridging the gaps (Enabler Working Group):

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Key take aways

- ✓ Standards are the **common language** among the main actors in this field: the financial sector, businesses and policy makers
- ✓ Standards are excellent **tools in measuring the impact** of the (European) policies and ensuring that investments are directed towards sustainable growth
- ✓ Performance Standards provide **tools for measuring the results** generated for the financial value chain, while de-risking the application of the legal requirements
- ✓ There is a **need for more standards** to support sustainable finance. A lot of good and well-established practices are already available which could be standardized.

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Contact

If you want to joint the standardization work, contact:

Ms Andrea Nam at the CEN-CENELEC Management Centre

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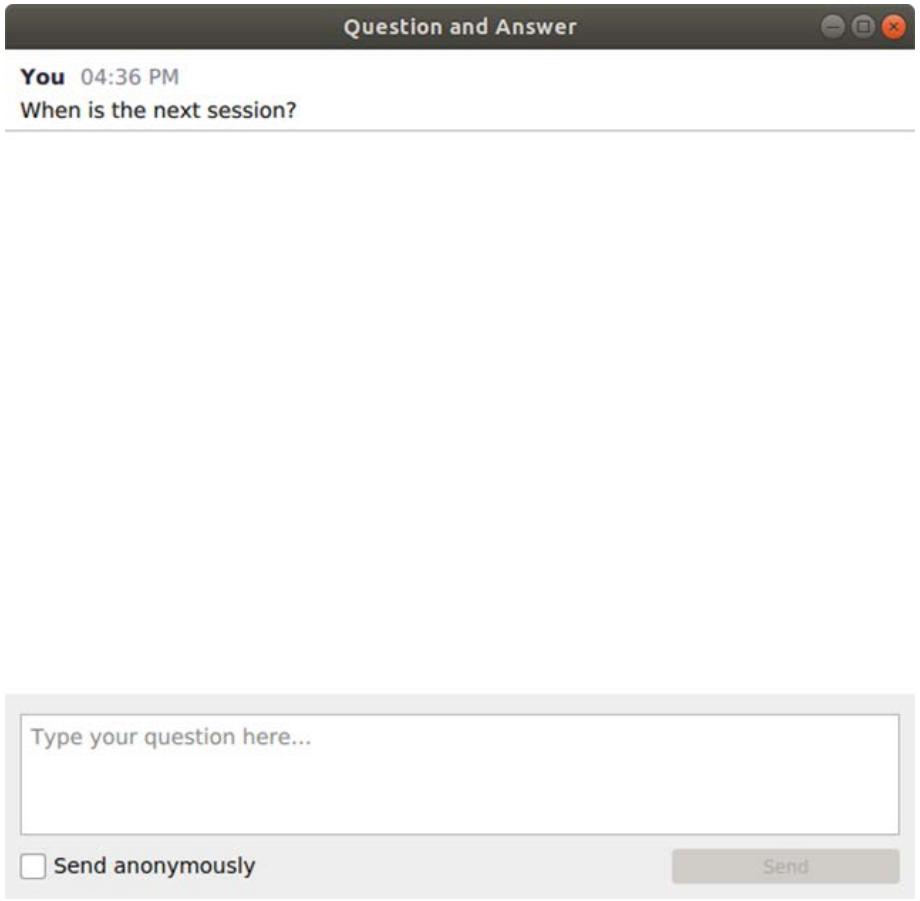
Question time

- Use the Q&A panel to submit your questions



European Standardization Organizations

Thank you for your participation!

Next webinar

2021-05-10: 10-10 webinar: Lessons learned for CEN and CENELEC from the COVID-19 crisis