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Sustainable finance regulation needs to facilitate a broad economic transition

Climate change poses a major challenge to the world and to society as a whole and requires comprehensive structural change. If the objectives of the Paris Climate Agreement and the UN Goals for Sustainable Development are to be achieved, not only the way how we generate energy must change fundamentally, but also the way we use energy, how we feed ourselves, how we travel, and much more. The transition to a low-carbon economy will be a long and complex process. A sustainable path must be established that is ambitious enough but does not set unachievable or unrealistic goals for institutions while also being politically and socially viable.

The financial sector has an important role to support the aspiring political and economic sustainability agenda set by the European Union. Banks and insurers can facilitate the transformation towards a more resource-efficient economy in various ways: By mobilizing capital through investments and loans, providing sustainable insurance solutions, integrating social and environmental considerations in business and risk management and - last but not least - by ensuring a progressive decarbonization of portfolios including engagement processes with investee companies. Already today, the financial industry mobilizes private investment for sustainable purposes such as climate and environmental protection, provides financing for infrastructure projects – and over the past years, more and more financial companies started integrating sustainability factors into key business areas.

However, the financial industry should not be regarded and treated as the sole change agent to achieve global sustainability targets, especially when it depends on third-party efforts. In order to channel investments towards sustainable assets and assess sustainability risks correctly, the financial sector needs reliable information by investee companies. Improvements to the availability, quality and comparability of sustainability data are therefore of utmost importance in order to be able to provide sustainable financial products. Ultimately, sustainability will become a key factor in assessing companies' risk return profiles, both in the financial sector and in the real economy.

In order to promote sustainability and sustainable finance more widely, there is a need for a certain level of regulation. In this context, greater transparency (e.g. global corporate disclosure requirements based on the recommendations of the task-force on climate-related financial disclosures) is an imperative, but even more important is to establish regulation that facilitates and incentivizes structural change on a broad

basis. Financing only a narrow «green» niche will not be sufficient to transform the economy. Moreover, to mainstream sustainability, relevant regulation needs to be straight-forward to apply.

The current state of knowledge in climate science calls for decarbonization as quickly as possible. At the same time, an orderly and just transformation process comprising adequate regulation must be ensured. We can only achieve this balancing act if politics, real economy and financial services industry work together. ●