

**Opinion of the European Committee of the Regions on ‘Action Plan: Financing Sustainable Growth’**

(2019/C 86/04)

**Rapporteur:** Tilo GUNDLACK (DE/PES), Member of the Landtag of Mecklenburg-Western Pomerania**Reference(s):** Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions: Action Plan: Financing Sustainable Growth

COM(2018) 97 final

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 final

Proposal for a Regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341

COM(2018) 354 final

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks

COM(2018) 355 final

## I. RECOMMENDATIONS FOR AMENDMENTS

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 final)

**Amendment 1**

Recital 13

Text proposed by the European Commission	CoR amendment
<p>A Union classification of environmentally sustainable economic activities should enable the development of future Union policies, including Union-wide standards for environmentally sustainable financial products and eventually the establishment of labels that formally recognise compliance with those standards across the Union. Uniform legal requirements for considering investments as environmentally sustainable investments, based on uniform criteria for environmentally sustainable economic activities, are necessary as a reference for future Union legislation aiming at enabling those investments.</p>	<p>A Union classification of environmentally sustainable economic activities should enable the development of future Union policies, including Union-wide standards for environmentally sustainable financial products and eventually the establishment of labels that formally recognise compliance with those standards across the Union. Uniform legal requirements for considering investments as environmentally sustainable investments, based on uniform criteria for environmentally sustainable economic activities, are necessary as a reference for future Union legislation aiming at enabling those investments. <b><i>The uniform legal requirements should, with a view to due diligence requirements for investors and businesses as regards compliance with the sustainability criteria, also cover cross-border economic activities and their value chains; in so doing, efforts should be made to include them in existing OECD standards (OECD Guidelines for Multi-national Enterprises).</i></b></p>

**Reason**

The future EU-wide sustainability standards could be expanded to cover cross-border economic activities and become OECD standards. Thus offshore transactions could be covered which do not explicitly fall within the scope of EU regulations.

**Amendment 2**

## Recital 35

Text proposed by the European Commission	CoR amendment
<p>The application of this Regulation <b>should</b> be reviewed regularly in order to assess the progress on the development of technical screening criteria for environmentally sustainable activities, the use of the definition of environmentally sustainable investment, and whether compliance with the obligations requires the establishment of a verification mechanism. The review <b>should include</b> also an assessment of <b>whether</b> the scope of this Regulation <b>should</b> be extended to cover <b>social sustainability</b> objectives.</p>	<p>The application of this Regulation <b>will</b> be reviewed regularly in order to assess the progress on the development of technical screening criteria for environmentally sustainable activities, the use of the definition of environmentally sustainable investment, and whether compliance with the obligations requires the establishment of a verification mechanism. The <b>first</b> review <b>by 31 December 2021 will</b> also <b>include</b> an assessment of <b>the extent to which, and when</b>, the scope of this Regulation <b>could</b> be extended to cover objectives <b>relating to the social aspects of the Sustainable Development Goals meant to become the EU's new long-term development strategy</b>.</p>

**Reason**

The amendment aims at ensuring consistency with the Review Clause set in article 17 of the Commission proposal

**Amendment 3**

## Article 13

Text proposed by the European Commission	CoR amendment
<p>The minimum safeguards referred to in Article 3(c) shall be procedures implemented by the undertaking that is carrying out an economic activity to ensure that the principles and rights set out in the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work, namely: the right not to be subjected to forced labour, the freedom of association, workers' right to organise, the right to collective bargaining, equal remuneration for men and women workers for work of equal value, non-discrimination in opportunity and treatment with respect to employment and occupation, as well as the right not to be subjected to child labour, are observed.</p>	<p>The minimum safeguards referred to in Article 3(c) shall be procedures implemented by the undertaking that is carrying out an economic activity to ensure that the principles and rights set out in <b>the European Pillar of Social Rights and</b> the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work, namely: the right not to be subjected to forced labour, the freedom of association, workers' right to organise, the right to collective bargaining, equal remuneration for men and women workers for work of equal value, non-discrimination in opportunity and treatment with respect to employment and occupation, as well as the right not to be subjected to child labour, are observed.</p>

**Reason**

Adjustment along the lines of Recital 21 of the Commission proposal.

## Amendment 4

## Article 14

Text proposed by the European Commission	CoR amendment
<p data-bbox="272 383 687 414"><i>Requirements for technical screening criteria</i></p> <p data-bbox="177 468 782 551">(1) The technical screening criteria adopted in accordance with Articles 6(2), 7(2), 8(2), 9(2), 10(2) and 11(2) shall:</p> <p data-bbox="177 607 782 719">(a) identify the most relevant potential contributions to the given environmental objective, considering not only the short-term but also the longer term impacts of a specific economic activity;</p> <p data-bbox="177 775 782 857">(b) specify the minimum requirements that need to be met to avoid significant harm to any of the relevant environmental objectives;</p> <p data-bbox="177 913 782 969">(c) be qualitative or quantitative, or both, and contain thresholds where possible;</p> <p data-bbox="177 1025 782 1167">(d) where appropriate, build upon Union labelling and certification schemes, Union methodologies for assessing environmental footprint, and Union statistical classification systems, and take into account any relevant existing Union legislation;</p> <p data-bbox="177 1223 782 1305">(e) be based on conclusive scientific evidence and take into account, where relevant, the precautionary principle enshrined in article 191 TFEU;</p> <p data-bbox="177 1361 782 1473">(f) take into account the environmental impacts of the economic activity itself, as well as of the products and services provided by that economic activity, notably by considering their production, use and end-of-life;</p> <p data-bbox="177 1529 782 1585">(g) take into account the nature and the scale of the economic activity;</p> <p data-bbox="177 1641 782 1783"><b>(h) take into account the potential impact on liquidity in the market, the risk of certain assets becoming stranded as a result of losing value due to the transition to a more sustainable economy, as well as the risk of creating inconsistent incentives;</b></p> <p data-bbox="177 1839 782 1980">(i) cover all relevant economic activities within a specific sector and ensure that those activities are treated equally if they contribute equally towards one or more environmental objectives, to avoid distorting competition in the market;</p> <p data-bbox="177 2036 782 2092">(j) be set as to facilitate the verification of compliance with those criteria whenever possible.</p>	<p data-bbox="906 383 1321 414"><i>Requirements for technical screening criteria</i></p> <p data-bbox="810 468 1415 551">(1) The technical screening criteria adopted in accordance with Articles 6(2), 7(2), 8(2), 9(2), 10(2) and 11(2) shall:</p> <p data-bbox="810 607 1415 719">(a) identify the most relevant potential contributions to the given environmental objective, considering not only the short-term but also the longer term impacts <b>in terms of sustainability</b> of a specific economic activity;</p> <p data-bbox="810 775 1415 857">(b) specify the minimum requirements that need to be met to avoid significant harm to any of the relevant environmental objectives;</p> <p data-bbox="810 913 1415 969">(c) be qualitative or quantitative, or both, and contain thresholds where possible;</p> <p data-bbox="810 1025 1415 1167">(d) where appropriate, build upon Union labelling and certification schemes, Union methodologies for assessing environmental footprint, and Union statistical classification systems, and take into account any relevant existing Union legislation;</p> <p data-bbox="810 1223 1415 1305">(e) be based on conclusive scientific evidence and take into account, where relevant, the precautionary principle enshrined in article 191 TFEU;</p> <p data-bbox="810 1361 1415 1473">(f) take into account the environmental impacts of the economic activity itself, as well as of the products and services provided by that economic activity, notably by considering their production, use and end-of-life;</p> <p data-bbox="810 1529 1415 1585">(g) take into account the nature and the scale of the economic activity;</p> <p data-bbox="810 1641 1415 1783">(h) cover all relevant economic activities within a specific sector and ensure that those activities are treated equally if they contribute equally towards one or more environmental objectives, to avoid distorting competition in the market;</p> <p data-bbox="810 1839 1415 1895">(i) be set as to facilitate the verification of compliance with those criteria whenever possible.</p>

**Reason**

- (i) The Commission proposal does not specify the type of impact it is looking at.
- (ii) Indent (h) should be deleted, as the concept of environmental sustainability does not relate to the idea of liquidity in the market.

**Amendment 5**

## Article 15

Text proposed by the European Commission	CoR amendment
<i>Platform on Sustainable Finance</i>	<i>Platform on Sustainable Finance</i>
<p>(1) The Commission shall establish a Platform on sustainable finance composed of:</p> <p>(a) representatives of:</p> <p style="padding-left: 20px;">(i) the European Environment Agency;</p> <p style="padding-left: 20px;">(ii) the European Supervisory Authorities;</p> <p style="padding-left: 20px;">(iii) the European Investment Bank and the European Investment Fund;</p> <p>(b) experts representing relevant private stakeholders;</p> <p>(c) experts appointed in a personal capacity, with proven knowledge and experience in the areas covered by this Regulation.</p>	<p>(1) The Commission shall establish a Platform on sustainable finance composed of:</p> <p>(a) representatives of:</p> <p style="padding-left: 20px;">(i) the European Environment Agency;</p> <p style="padding-left: 20px;">(ii) the European Supervisory Authorities;</p> <p style="padding-left: 20px;">(iii) the European Investment Bank and the European Investment Fund;</p> <p style="padding-left: 20px;"><b>(iv) the Multi-stakeholder platform on the implementation of the Sustainable Development Goals in the EU;</b></p> <p>(b) experts representing relevant private stakeholders;</p> <p>(c) experts appointed in a personal capacity, with proven knowledge and experience in the areas covered by this Regulation.</p>

**Amendment 6**

## Article 17(1)

Text proposed by the European Commission	CoR amendment
<p>By 31 December 2021, and subsequently every three years thereafter, the Commission shall publish a report on the application of this Regulation. That report shall evaluate the following:</p> <p>(a) the progress on the implementation of this Regulation with regard to the development of technical screening criteria for environmentally sustainable economic activities;</p>	<p>By 31 December 2021, and subsequently every three years thereafter, the Commission shall publish a report on the application of this Regulation. That report shall evaluate the following:</p> <p>(a) the progress on the implementation of this Regulation with regard to the development of technical screening criteria for environmentally sustainable economic activities;</p>

Text proposed by the European Commission	CoR amendment
<p>(b) the possible need to revise the criteria set out in this Regulation for considering an economic activity environmentally sustainable;</p> <p>(c) <i>the appropriateness of extending the scope of this Regulation to cover other sustainability objectives, in particular social objectives;</i></p> <p>(d) the use of the definition of environmentally sustainable investment in Union law, and at Member State level, including the appropriateness of setting up verification mechanism of compliance with the criteria set out in this Regulation.</p>	<p>(b) the possible need to revise the criteria set out in this Regulation for considering an economic activity environmentally sustainable;</p> <p>(c) the use of the definition of environmentally sustainable investment in Union law, and at Member State level, including the appropriateness of setting up verification mechanism of compliance with the criteria set out in this Regulation;</p> <p>(d) <b><i>By 31 December 2021, the Commission shall put forward a proposal for extending the scope of this Regulation to cover social objectives of the Sustainable Development Goals.</i></b></p>

Proposal for a Regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341

(COM(2018) 354 final)

#### Amendment 7

New Recital after Recital 1

Text proposed by the European Commission	CoR amendment
	<p><b><i>Incorporating environmental, social and governance factors in the investment decision making process, can realise benefits beyond the financial markets. It is therefore key that financial market participants provide the necessary information to enable comparability of investments and informed investment decisions. Furthermore, to fulfil the obligations of due diligence concerning the sustainability impact and risks and to provide meaningful information to end-investors, financial market participants need reliable, comparable and harmonised disclosure of information by investee companies. This process can only succeed where legally agreed definitions are put in place.</i></b></p>

**Amendment 8**

## Recital 4

Text proposed by the European Commission	CoR amendment
<p>To ensure a coherent application of this Regulation and that the disclosure obligations laid down in this Regulation are clearly and consistently applied by financial market participants, it is necessary to lay down a harmonised definition of ‘sustainable investments’.</p>	<p>To ensure a coherent application of this Regulation and that the disclosure obligations laid down in this Regulation are clearly and consistently applied by financial market participants, it is necessary to lay down a <b>clear and harmonised definition of ‘sustainable investments’ and ‘sustainability risks’, avoiding any overlap in regulation where not in line with the principles of better regulation and proportionality. The definition of sustainable investments ensures a minimum level of consistency among financial products and services and also ensures that such investments have a positive net impact in terms of sustainability performance. Due to the multi-faceted nature of sustainability — in the sense of the three dimensions of environmental, social and governance sustainability — positive impacts in one dimension may not always be accompanied by positive impacts in another, but the net sustainability performance, as measured by harmonised sustainability indicators, must always be significantly positive. The definition of sustainability risks is required to ensure consistency in regulatory outcomes, but is also meant as an evolving and dynamic tool able to integrate emerging risks. The definition comprises the financial and non-financial impact of the non-consideration of environmental, social and governance risks. Sustainability performance is to be measured based on harmonised sustainability indicators to be established by the European Commission as a matter of urgency and taking use of existing European and international undertakings.</b></p>

**Amendment 9**

## Article 2

Text proposed by the European Commission	CoR amendment
<p style="text-align: center;"><i>Definitions</i></p> <p>For the purposes of this Regulation the following definitions shall apply:</p> <p>(...)</p> <p>(s) ‘insurance advice’ means an advice as defined in Article 2 (1)(15) of Directive (EU) 2016/97.</p>	<p style="text-align: center;"><i>Definitions</i></p> <p>For the purposes of this Regulation the following definitions shall apply:</p> <p>(...)</p> <p>(s) ‘insurance advice’ means an advice as defined in Article 2 (1)(15) of Directive (EU) 2016/97;</p>

Text proposed by the European Commission	CoR amendment
	<p>(t) <i>'sustainability risks' mean financial or non-financial risks, material or likely to be materialised, linked to environmental, social and governance risks and factors, where material for a particular investment approach; 'sustainability risks' comprise:</i></p> <p>(i) <i>short-term and/or long-term risks to the return of a financial or pension product that arise from its exposure to economic activities that can have adverse environmental or social impact, or from the product's exposure to investee entities that exhibit poor governance;</i></p> <p>(ii) <i>the short-term and/or long-term risk that the economic activities to which a financial or pension product is exposed have negative impacts on the natural environment, on workforces and communities, or on the governance of investee entities, including but not limited to when linked to financial risk referred to in point (i).</i></p>

## II. POLICY RECOMMENDATIONS

### THE EUROPEAN COMMITTEE OF THE REGIONS

1. is of the opinion that sustainable<sup>(1)</sup> finance helps ensure that environmental considerations (climate change, environmental degradation, loss of biodiversity and resource depletion) are taken into consideration in investment decisions alongside social considerations (e.g. bad working conditions) and aspects of corporate management (known as governance factors);
2. strengthens its commitment to addressing climate change and promoting sustainable development along the lines of the UN's 2030 Agenda adopted in 2015, with its 17 Sustainable Development Goals (SDGs);
3. believes that consideration should be given to synthetic development indicators in Europe covering a sufficient range of development-related aspects, including sustainability. The Regional Social Progress Index that the European Commission's Directorate-General for Regional and Urban Policy is already implementing for all EU regions could be used as a starting point;
4. emphasises its belief that enormous amounts of investment are necessary to deal with the challenges of climate change and sustainable development, and that these cannot be covered by public resources alone<sup>(2)</sup>;
5. is aware that climate change compounds problems with insufficient bank capitalisation and financial market stability and gives rise to additional physical and transitional risks for the financial sector;
6. warmly welcomes, therefore, the Commission's 8 March 2018 'Action Plan: Financing Sustainable Growth', and shares its stated objectives and its willingness to enable the financial sector and private investors to fully play their part in achieving the ambitious and common climate and sustainability objectives;

<sup>(1)</sup> According to the Brundtland Commission, 'sustainability' can be defined as development that 'meets the needs of the present without compromising the ability of future generations to meet their own needs'. Sustainability in the context of growth in the European Union is the overall guiding principle linking ecology, economics and social responsibility.

<sup>(2)</sup> CoR opinion on Climate finance: an essential tool for the implementation of the Paris Agreement, COR-2017-02108.

7. calls on the Commission, when it checks whether risks relating to climate and other environmental factors can be included in institutions' risk management strategies and the potential fine tuning of banks' capital requirements as part of the Capital Requirements Regulation and the Capital Requirements Directive, to ensure that — taking account of objectively assessed criteria — capital requirements are not set at a lower level if the environmental or social responsibility sustainability risk is low, but the economic risk is high;

8. calls on the Commission to clarify how a balance can be struck between the partly conflicting aims of the Action Plan with simultaneous preservation of financial stability; points out that the promotion of sustainable finance should not be to the detriment of stability on the financial market;

9. believes that this Action Plan and its implementation should be seen in the context of the UN Sustainable Development Goals, which were set by the United Nations in 2015 with a view to 2030, and of the EU's stated willingness to pursue these goals;

10. points out, in this regard, that the CoR plays an active role in the high-level multi-stakeholder platform which provides support and advice to the Commission on how best to deliver on the SDGs in the EU, and that the platform recommendations clarify the importance of mobilising appropriate financing means to achieve the SDGs, and make concrete suggestions to that end;

11. is concerned about the effects of climate change within the EU and worldwide, and points out that local and regional authorities (LRAs) often have primary responsibility for mitigating damage caused by increasingly extreme natural phenomena and for investing in adjustment measures <sup>(3)</sup>;

12. stresses that the consequences <sup>(4)</sup> of climate-related natural disasters are immediately felt in LRAs and that the latter also benefit from securing the long-term competitiveness of the EU economy and from new, more sustainable investment and job opportunities;

13. underlines that LRAs are responsible for a large part of investment in infrastructure for transport, telecommunication, energy, water and waste management, which are critical enablers of sustainable development more broadly; in view of this stresses that the LRAs are playing a key role in building resilience to increasingly common climate-related adverse natural events;

14. endorses the Commission's approach — as part of the Investment Plan for Europe — of expanding technical and financial support for sustainable projects through the European Fund for Strategic Investments (EFSI) and the European Investment Advisory Hub, the EU portal for investment advice, whose strengthened advisory capacity on environmental and social matters will benefit the regional and local level; also welcomes the promotion in parallel of sustainable investments in partner countries through the European Fund for Sustainable Development (EFSD), beginning with Africa and EU neighbours, as part of implementation of the EU's External Investment Plan (EIP), under which support is given to, for example, sustainable agriculture, connectivity and the creation of decent jobs;

15. draws attention to the fact that there is a connection between the living and educational standards of Europeans and their awareness of the need for and opportunities of a sustainable financial system, as well as their ability to participate in it by making their own investments in sustainable financial products; In any case, Europeans need to be provided with better information about sustainable growth if they are to be more aware of its various aspects;

16. is of the view that implementation of the Action Plan should support a stronger focus of economic activities on long-term goals, taking account of the possible social repercussions of economic activity, within Europe and worldwide;

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<sup>(3)</sup> CoR opinion on Climate finance: an essential tool for the implementation of the Paris Agreement, COR-2017-02108.

<sup>(4)</sup> According to the Action Plan, annual weather-related disasters rose by 46 % between 2007 and 2016, while economic losses rose by 86 % (to EUR 117 billion in 2016).

17. thus calls on the Commission to continue striving to limit the short-termism that is so common in financial markets; points out that this phenomenon has obvious and largely detrimental effects on the governance and strategies of businesses, not only large publicly-listed companies, but also smaller ones;

18. is in favour of the fact that this Action Plan was rapidly put into motion with the first three legislative proposals published on 24 May 2018: the Proposal for a Regulation on the establishment of a framework to facilitate sustainable investment, the Proposal for a Regulation on disclosures relating to sustainable investments and sustainability risks, and the Proposal for a Regulation on low carbon benchmarks and positive carbon impact benchmarks, as well as the launch of a public consultation on integrating sustainability into suitability tests;

19. points out that SMEs and family-owned enterprises have a more direct relationship with the environmental and social impact of their business and an inherently different attitude regarding its sustainability and governance aspects; notes, however, that they often face higher cost of capital and more difficulties in accessing the financial markets;

20. calls on the Commission to present proposals aiming to implement the other objectives of the Action Plan as soon as possible;

21. deplores that the Commission, in its Action Plan — where it states that such support could be provided under the single investment fund in the new multiannual financial framework (MFF) — did not take up the High-Level Expert Group's recommendation regarding the creation of 'Sustainable Infrastructure Europe', an organisation which would serve to support the development of sustainable infrastructure projects across all Member States, and which would be particularly useful for LRAs;

22. highlights that some LRAs are themselves issuers of sustainable financial products such as municipal or regional green bonds, social bonds and sustainable bonds. It is important to support such initiatives, both by developing common practices for bonds and by improving issuers' financial stability through cooperation, for example using joint guarantees and the like;

23. points to the example of the Basque Country's recent launch of its 'Sustainability Bond Framework' <sup>(5)</sup>, under which the proceeds from the sale of bonds can be used to finance affordable housing, access to education and healthcare, renewable energy projects, pollution prevention and many other types of sustainable investments in a variety of sectors which are defined by the framework. Another good example is the Nordic public sector issuers of green bonds, which in 2017 published a joint reporting framework that was positively received by the market <sup>(6)</sup>;

24. highlights its support for the introduction in the EU of a broad-based financial transaction tax (FTT) <sup>(7)</sup>; highlights that such a tax would, if correctly designed, help foster long-termism in the financial markets;

25. underlines that an FTT would — aside from its other merits — present an opportunity to reorient capital flows towards sustainable investments; this would be achieved by exempting transactions concerning the most sustainable investments — as defined thanks to the EU framework for facilitating sustainable investment — from the transaction tax or subjecting such transactions to a lower rate;

26. welcomes the fact that, in the context of the new MFF, the Commission's 6 June 2018 proposal on the InvestEU Programme also aims to contribute to building a sustainable financial system in the EU, and to support the reorientation of private capital towards sustainable investments, with approximately 30 % of the proposed InvestEU budgetary guarantee of EUR 38 billion to be allocated to sustainable infrastructure;

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<sup>(5)</sup> [http://www.euskadi.eus/contenidos/informacion/7071/es\\_2333/Basque%20Government%20Sustainability%20Bond%20Framework\\_2018.pdf](http://www.euskadi.eus/contenidos/informacion/7071/es_2333/Basque%20Government%20Sustainability%20Bond%20Framework_2018.pdf)

<sup>(6)</sup> Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting; <https://www.munifin.fi/recents/news/2017/10/24/nordic-issuers-release-guide-on-green-bonds-impact-reporting>

<sup>(7)</sup> See February 2012 CoR opinion on A common system of financial transaction tax. CdR 332/2011 fin, (OJ C 113, 18.4.2012, p. 7).

27. also welcomes the fact that the Commission proposal states that the contribution of InvestEU to the achievement of the EU's climate objectives will be subject to sustainability proofing in accordance with investment guidelines that should be developed by the Commission in cooperation with implementing partners under the InvestEU Programme and use the criteria to be established by the proposed Regulation on the establishment of a framework to facilitate sustainable investment;

28. since SMEs experience the greatest difficulty in putting their businesses on a more sustainable footing, considers that the SMEs policy window of the InvestEU programme should contain strong incentives to support this transformation;

29. highlights that beyond the financial markets, sustainable development requires the right incentives to be in place across the spectrum of economic activity; reiterates that an efficient greenhouse gas emission allowances market, regulated by the European Emissions Trading System (ETS), could play a key role in putting in place the right incentives in order to tackle climate change, if implemented together with an ambitious energy efficiency and renewable energy policy; regrets, therefore, the disappointing results of the ETS in its current form, where prices for emission allowances are still too low; highlights its demand that a minimum percentage of ETS auction revenues be managed directly by LRAs and invested in improving local resilience <sup>(8)</sup>;

30. encourages, furthermore, the EU institutions, Member States and LRAs to wholeheartedly embrace sustainable development, and to ensure that the EU becomes the global leader in this area, exploiting to the full opportunities for innovation and development arising from the gradual transition towards a new economic and financial model;

#### **Commission Proposal for a Regulation on the establishment of a framework to facilitate sustainable investment**

31. welcomes the Commission's proposal for a Regulation establishing a framework to facilitate sustainable investment, which would enable the development of a harmonised EU-level framework to assess sustainability, and which is a precondition for reaching several of the Commission's concrete objectives outlined in its Action Plan. Building on the proposed Regulation, the CoR encourages the Commission to work on the development of an EU 'Ecolabel' for sustainable financial products;

32. welcomes the Commission's intention, as stated in its Action Plan, to come forward with proposals for an 'EU Green Bond' in 2019, on the basis of the criteria established by the 'framework regulation', since such a standard would raise awareness and increase investor confidence, thus helping to create a deep and liquid market for sustainable financial assets;

33. deplores, however, the one-sided focus on environmental elements of sustainability in the Commission's Action Plan, and specifically in the 'framework proposal'; insists that social concerns are as integral to sustainability as environmental ones, and that governance issues are also highly relevant, especially in the particular context of investment;

34. would recommend swift implementation, and therefore calls on the Commission, as soon as possible, and at the latest in the first report on the application of the Regulation on a framework to facilitate sustainable investment, to present when and how it will propose extending the scope of this Regulation to include definitions and criteria allowing investors to establish whether an economic activity is sustainable in accordance with all objectives of the Sustainable Development Goals;

35. calls on the Commission also to report on what it has done to turn its approach to the sustainability-oriented management of the financial system into OECD standards;

36. calls for the introduction of legally binding due diligence requirements for investors and businesses as regards respect for human rights, which should also apply to the activities of foreign business groupings and their value chains;

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<sup>(8)</sup> CoR opinion on Climate finance: an essential tool for the implementation of the Paris Agreement, COR-2017-02108.

37. shares the Commission's view (set out in Recital 36) that there is European added value in introducing a standard EU classification system at EU level for the criteria for determining what constitutes a sustainable activity for investment purposes, thus meeting the EU's environmental and climate policy requirements and goals and avoiding costly market fragmentation. The proposed Regulation thus complies with the requirements of the subsidiarity principle under Article 5 TEU;

38. notes that the proposal for a Regulation is compatible with the proportionality principle;

**Proposal on disclosures relating to sustainable investments and sustainability risks**

39. views respect for the principle of proportionality in setting a regulatory framework — that is focused on sustainability goals — for transparency and disclosure provisions, when taking into account the interests of credit institutions that are of particular importance for local firms and LRAs, to be extremely important for small and medium-sized institutions, such as savings banks and cooperative banks, and stresses that this should be taken into consideration;

40. sees that the subsidiarity and proportionality principles are safeguarded in the proposal;

**Low carbon benchmarks and positive carbon impact benchmarks**

41. deems that the proposal complies with the subsidiarity and proportionality principles.

Brussels, 5 December 2018.

*The President  
of the European Committee of the Regions*

Karl-Heinz LAMBERTZ

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