Sustainable Finance

Myths and realities

Myth #1
Sustainable finance is about "green" products.

What people think
I don't manage such products, so I am not concerned.

Reality
All financial market players, advisors and products are impacted, from ESG risks monitoring and disclosure to taxonomy alignment and customers' ESG preferences.

Myth #2
Sustainable finance will mainly impact asset managers.

What people think
As a bank, I am less impacted.

Reality
Financial products disclosure regulation impacts on MiFID reporting. The EBA action plan explains the phased approach and associated timelines for the reports, advices, guidelines and technical standards mandated to the EBA.

Myth #3
Taxonomy will take time to develop.

What people think
I will wait until the taxonomy is completely developped before I start my sustainable finance project.

Reality
While the TEG report published March this year, the taxonomy will be finalised in 2021/2022. And with the first deadline for products disclsoure being 10 March 2021, you would miss it.

Myth #4
Sustainable finance is only for the financial sector

What people think
As I'm not part of that sector, I'm not concerned.

Reality
Taxonomy disclosure is applicable to all companies subject to the Non-Financial Reporting Directive (NFRD). Its review will affect all large listed groups. Organisations who provide information on ESG risks and taxonomy alignment, will have easier access to financing.

Myth #5
Implementing measures regarding sustainability aren't known yet.

What people think
I cannot start my own project until they are.

Reality
By playing the waiting game, organisations will probably miss the deadline of 10 March 2021.

Myth #6
ESG risks is about adding disclaimers in product prospectus.

What people think
That's simple, my lawyer can do it.

Reality
Before updating the prospectus or pre-contractual documents, organisations need to assess the ESG risks impact on the product and decide how to manage it; and decide in which category the product falls in, updating the target market, product governance and distribution strategy accordingly.

Myth #7
Only financial performance matters to investors

What people think
I don't need to focus on ESGs for that.

Reality
Most investors believe ESGs can generate superior financial performance by mitigating reputational, operational and financial risks.

Myth #8
The taxonomy will help define ESG products.

What people think
We'll be able to have a common definition and accurately meet our investors' demands.

Reality
Taxonomy defines en environmentally sustainable activity, not an investment process.

Myth #9
The sustainable finance action plan will encourage investment in the same assets

What people think
We will ended up creating a green bubble.

Reality
Taxonomy aligned activities aren't just in the "green" sector. The objective of the sustainable finance action plan is to transform all EU activities, particularly the ones with negative environmental impact.

Myth #10
Sustainability risk is the risk of having a lower ESG portfolio's performance compared to an ESG product.

What people think
This is one of the reasons we don't implement it in our investment decisions.

Reality
Sustainability risk is the risk of ESG matters having a negative impact on the investment value of all products.

Myth #11
With the Covid-19 outbreak, the EC will defer the Action Plan implementation.

What people think
We all have other priorities, and the EC is no exception.

Reality
For far nothing indicated the implementation will be delayed. Contrarily, COVID-19 is an additional reason to accelerate transition to sustainable financing, according to EC's consultation published 8 April.

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