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OVERVIEW OF GLOBAL AND EUROPEAN INSTITUTIONAL SUSTAINABLE FINANCE INITIATIVES

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ABSTRACT

To contribute to the fight against climate change and achieve a carbon-neutral economy, a large volume of funds must be mobilised to finance the necessary investment. The international financial system will play a key role in this process to channel the financing, but considerable changes will be needed to develop sustainable financing that is sufficiently standardised and transparent to ensure the efficient allocation of funds to activities identified as sustainable. Since the Paris Agreement and the 2030 Agenda were signed in 2015, work has been undertaken in this respect in various spheres, by the G20, the United Nations, the European Commission and central banks, and also in the financial sector. This article describes the main – public and private – institutional initiatives under way at the global and the European level to achieve the transition needed to address climate change.

Keywords: climate change; sustainable finance; institutional initiatives; financial sector.

JEL classification: G10, G20, E58, Q50.

OVERVIEW OF GLOBAL AND EUROPEAN INSTITUTIONAL SUSTAINABLE FINANCE INITIATIVES

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The financial system and the climate change challenge

Climate change-related risks have gained relevance in the financial field in recent years, especially since 2015 when the Paris Agreement[1] and the United Nations 2030 Agenda for Sustainable Development[2] were signed. The main goal of the Paris Agreement is to prevent global temperatures from rising by more than 2 degrees Celsius (2ºC) above pre-industrial levels, endeavouring to limit this increase in temperature to 1.5ºC. Were these figures to be exceeded, the consequences of climate change would be an increase both in the frequency and the intensity of climate events (such as storms, flooding or natural disasters) and a gradual rise in temperature that would lead to structural changes (higher sea levels). All these are known as physical risks. To achieve the goals of the Paris Agreement, the economy will have to become climate-neutral. For this purpose, the Agreement also sets two further goals: to boost the economy's capacity to adapt to the adverse effects of climate change and reduce greenhouse gas emissions; and to promote financing of the investments needed to back sustainable growth. This may entail transition risks, deriving from changes in policies, technologies and consumer preferences. The physical and transition risks are interrelated, as failure to take early and orderly action may result in physical risks materialising, and the longer it takes for steps to be taken, resulting in a more abrupt process, the greater the transition risk, and the greater the risk that it will be too late to offset the consequences of the physical risks (NGFS, 2019).

In the European Green Deal presented at the end of 2019, the European Commission established the goal of transforming Europe into the first climate-neutral continent by 2050, through a variety of programmes, bearing in mind the need to mobilise funds to finance this goal. The Green Deal envisages that additional annual investment of at least €260 billion will be needed to achieve the climate and energy goals set for 2030.[3] Moreover, according to the Sustainable Europe Investment Plan

1 Agreement signed at the 21st Conference of the Parties (COP21) on Climate Change in Paris in December 2015, where 195 nations, including Spain, undertook to fight climate change and unleash actions and investment towards a low carbon, resilient and sustainable future.

2 The Sustainable Development Goals (SDGs) represent a common framework for achieving a more sustainable world in 2030. The 2030 Agenda sets out 17 SDGs, each with their own targets – 169 in total – covering economic, social and environmental fields.

3 According to the initial Green Deal goal to reduce greenhouse gas emissions by 40%. The climate-neutral goal for 2050 is established in the European Climate Law, adopted by the European Parliament and the Council on 28 June

presented by the European Commission in January 2020, at least €1 trillion in public and private investment will be needed to finance the European Green Deal over the next decade.[4]

In consequence, the financial system will play an extremely important part in this transformation, channelling the financing needed and developing sustainable financing instruments that are sufficiently standardised and transparent to permit an efficient allocation of funds. In recent years, several initiatives have been launched, by the public sector (including central banks) and the private sector,[5] seeking to better understand the implications of climate change and to establish a framework that facilitates mobilisation of the funds needed to make this transition.

This article presents an overview of the main global and European institutional initiatives launched to encourage sustainable finance.

Joining forces globally to combat climate change

The signing of the Paris Agreement and the adoption of the Sustainable Development Goals (SDGs) of the 2030 Agenda in 2015 marked the starting point for much of the work undertaken in the public and the private financial sector to mobilise funds to finance the transition. Figure 1 sets out a timeline of the main global initiatives currently under way, which are described in greater detail in Table 1. Some of these initiatives are in the public sphere, such as the work of the G20, the International Platform on Sustainable Finance and the Coalition of Finance Ministers for Climate Action, while the Task Force on Climate-related Financial Disclosures (TCFD) and the programmes under the umbrella of the United Nations are headed by the private sector.

Taking 2015 as the starting point the G20 was the first off the mark, with its Green Finance Study Group in 2016, followed by its Sustainable Finance Study Group in 2018 which was revived in 2021. These study groups worked to encourage the financial system to include climate change-related risks in its decision-making and in the development of measures to increase institutional investors' involvement in the financing of sustainable projects.

2021 and which came into effect in July 2021. This Law sets out more ambitious net greenhouse gas emission reduction targets of at least 55% compared with 1990 levels by 2030. In July 2021, the European Commission launched a new legislative package – Fit for 55 – to regulate greenhouse gas emissions, which makes specific mention of this reduction of 55% by 2030.

4 See Europe's one trillion climate finance plan.

5 See González and Núñez (2020) for an analysis of how the banking sector is addressing climate change from the standpoint both of risks and opportunities. See Alonso and Marqués (2019) for a review of the new sustainable finance products being developed, and González and Núñez (2021) for recent developments in sustainable finance instruments. See Gimeno and Sols (2020) for how sustainability factors are being introduced into investment portfolios.

Figure 1
TIMELINE OF MAIN GLOBAL SUSTAINABLE FINANCE INITIATIVES

2015
- COP21 – Paris Agreement
- 2030 Agenda – UN SDGs

2016
- European Union ratifies Paris Agreement
- European Commission includes SDGs in its strategic approach
- G20 – Green Finance Study Group

2017
- Creation of NGFS
- FSB-TCFD recommendations

2018
- G20 – Sustainable Finance Study Group
- European Commission launches Action Plan on Financing Sustainable Growth

2019
- European Parliament declares climate emergency
- COP25
- European Commission – European Green Deal
- Creation of International Platform on Sustainable Finance and Coalition of Finance Ministers for Climate Action
- Banking sector launches Principles for Responsible Banking and Collective Commitment to Climate Action

2020
- European Commission approves European Taxonomy Regulation

2021
- European Commission launches Renewed Sustainable Finance Strategy

SOURCE: Devised by authors.

In late 2015, at the request of the G20, the Financial Stability Board (FSB) created the TCFD, which is led by and comprises private sector members. The Task Force drew up several voluntary guidelines on climate-related risks and opportunities disclosures, seeking to provide firms with guidance on their disclosures in the areas of: i) governance; ii) strategy; iii) risk management; and iv) metrics and targets (TCFD, 2017). These recommendations are supported by more than 2,300 bodies worldwide[6] which are including them in their climate change disclosures (TCFD, 2020). They are also being taken as a benchmark for disclosure standards, including for those developed by the European Commission, and they inspired the creation of the Task Force on Nature-related Financial Disclosures (TNFD) which is to issue recommendations on environmental and nature-related risk disclosures by 2023.

The United Nations Environment Programme Finance Initiative (UNEP FI) seeks to work with the global financial sector to mobilise private sector financing for

6 Including not only firms but also institutions, such as the governments of Canada, Chile, Denmark, France, New Zealand, Sweden and the United Kingdom, the Belgian Ministry of Finance and the City of Vancouver, and also the central banks of Brazil, France, the Netherlands, Belgium, Finland and Morocco, the Bank of England's Prudential Regulation Authority, the Hong Kong Monetary Authority and the Monetary Authority of Singapore.

Table 1
GLOBAL INSTITUTIONAL SUSTAINABLE FINANCE INITIATIVES

Initiative	Description
G-20	— Green Finance Study Group (2016) — Sustainable Finance Study Group (2018, 2021)
FSB Task Force on Climate-related Financial Disclosures (TCFD)	— Recommendations on climate-related financial disclosures in the areas of: i) governance, ii) strategy, iii) risk management, and iv) metrics and targets (TCFD, 2017)
UNEP Finance Initiative (UNEP FI)	— Principles for Responsible Banking and the Collective Commitment to Climate Action — Principles for Responsible Investment and the UN-convened Net-Zero Asset Owner Alliance — Principles for Sustainable Insurance — Pilot project on implementing the FSB-TCFD recommendations for banks, insurers and investors, particularly on development of metrics and application of climate-related scenario analysis
International Platform on Sustainable Finance (IPSF)	Launched in 2019 by the European Union, comprising 17 members from across the globe (accounting for 55% of greenhouse gas emissions and 50% of the world population and global GDP) and 11 observers. Aim: to increase the mobilisation of private capital towards environmentally sustainable investments and serve as a forum for international cooperation
Coalition of Finance Ministers for Climate Action	Launched in 2019 to promote domestic climate action, through fiscal policy and the use of public finance, in accordance with the Helsinki Principles
World Bank	— A Climate Change Action Plan aiming to step up financial and technical support to developing countries to broaden the scope of climate action — The Sustainable Banking Network, created in 2012 under the umbrella of the International Finance Corporation-World Bank Group, is a voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to improving risk management and increasing capital flows to activities with a positive climate impact
OECD	The OECD has stepped up its efforts to help countries deliver on their national and international climate commitments and contributions. It focuses on environmental, economic, financial and social aspects. It has several initiatives in the realm of finance, including the OECD Centre on Green Finance and Investment
IMF	The IMF publishes research on the economic implications of climate change and provides guidance to its members on climate strategies, particularly mitigation, adaptation and transition to a low-carbon economy
Network for Greening the Financial System (NGFS)	A network of central banks and supervisors created in December 2017 with 95 members and 15 observers (at June 2021) whose work is focused on how to include climate-related and environmental matters in microprudential supervision and macro-financial assessment and in the actions of central banks and their role in sustainable finance
Basel Committe on Banking Supervision (BCBS)	The High-Level Task Force on Climate-related Financial Risks is working on a number of initiatives on climate change-related financial risks. A stocktake of the regulatory and supervisory initiatives of the Committe members has been conducted (see BCBS, 2020) and a review of the literature and analysis of the transmission channels of such risks to the banking system are under way. Work will be undertaken to develop effective supervisory practices to mitigate those risks
Financial Stability Board (FSB)	The FSB has conducted a survey of its members, compiling financial authorities' experience in including physical and transition climate risks as part of their financial stability monitoring (see FSB, 2020a). It has also analysed the implications of climate change for financial stability (see FSB, 2020b)

SOURCE: Devised by authors.

sustainable development. Its members are banks, investors and insurers, and it comprises several programmes: i) Principles for Responsible Banking and the Collective Commitment to Climate Action, both launched in September 2019 (see Box 1); (ii) Principles for Responsible Investment (PRI), established in 2006 in the asset management and institutional investment sector, and the UN-convened Net-Zero Asset Owner Alliance launched in 2019 (see Box 2); and (iii) Principles for Sustainable Insurance, launched in 2012.

In late 2019 the International Platform on Sustainable Finance (IPSF) and the Coalition of Finance Ministers for Climate Action were also created. The IPSF, launched by the European Union together with the financial authorities of Argentina, Canada, Chile, China, India, Kenya and Morocco, seeks to boost the mobilisation of private capital towards environmentally sustainable investments and to serve as a forum for international cooperation.[7] In its first year, it drew up a list of the initiatives already in place and made a comparative analysis of its members' sustainability taxonomies (IPSF, 2020). The Coalition of Finance Ministers for Climate Action is made up of the governments of 62 nations that promote domestic climate action, especially through fiscal policy and the use of public finance, in accordance with the Helsinki Principles that were developed in the Santiago Action Plan signed at the COP25. In particular, Principle 5 calls for the mobilisation of private sources of financing to facilitate investments and the development of a financial sector that supports climate mitigation and adaptation.

In addition, in the central banking and supervisory sphere, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)[8] has worked, since it was established in December 2017, to include climate-related and environmental matters in microprudential supervision, macro-financial assessment and the actions of central banks, be it as regards the implications of climate change for monetary policy, the inclusion of sustainable and responsible investment criteria in non-monetary policy portfolios, or their role in sustainable finance.[9] Along the same lines, both the European Central Bank (ECB) and the Banco de España are incorporating the analysis of environmental and climate-related matters into different areas of their work, such as research, microprudential and macroprudential supervision and own portfolio management.[10] As regards the implications for

7 At June 2021 the IPSF had 17 members – the European Union, Argentina, Canada, Chile, China, Hong Kong, India, Indonesia, Kenya, Morocco, Japan, New Zealand, Norway, Senegal, Singapore, Switzerland and the United Kingdom – and 11 observers.

8 The NGFS has 95 members and 15 observers (at June 2021), including the Banco de España which joined in April 2018. For a complete list of members, see the following link: https://www.ngfs.net/en/about-us/membership. At December 2020, NGFS members accounted for over 85% of global GDP and over 75% of greenhouse gas emissions; they also supervised all global systemically important banks (NGFS, 2021).

9 See González (2021) for more details of the actions being taken by central banks relating to climate change and sustainable finance.

10 The Eurosystem's 19 national central banks and the ECB have agreed on a common stance for sustainable and responsible investment principles for euro-denominated non-monetary policy portfolios. See ECB press release of 4 February 2021.

financial stability, work is also being carried out by the FSB and the Basel Committee on Banking Supervision (BCBS).[11]

European Commission sustainable finance strategy

The European Commission defines "sustainable finance" as the process of duly taking environmental and social considerations into account when making investment decisions, leading to higher and more long-term investments in sustainable activities (European Commission, 2018). Developing a sustainable finance strategy across the European Union is a priority for the European Commission's capital markets union. It is also a key step for implementation of the Paris Agreement and for the European Union's sustainable development agenda. To assist this process, in 2016 the European Commission created a High-Level Expert Group (HLEG) on sustainable finance, with members from civil society, the financial sector and academia and observers from various European and international institutions with a mandate to advise in this area. The group's final report, published in January 2018, served as a basis for the Action Plan on Financing Sustainable Growth (commonly known as the Sustainable Finance Action Plan) on which the European Commission has been working since then.

The Action Plan seeks to develop the European Union's sustainable finance strategy and incorporate environmental, social and governance (ESG) considerations into the European financial system. The three fundamental objectives are to: i) reorient capital flows towards sustainable investment; ii) manage risks stemming from climate change, environmental degradation and social issues; and iii) foster transparency and long-termism in financial and economic activity (European Commission, 2018). These objectives are to be achieved through ten Actions (see Figure 2).

In 2018 the European Commission created a Technical Expert Group (TEG) to advise it on some of these Actions. Specifically, to develop: i) a classification system or taxonomy for sustainable activities (Action 1); ii) methodologies to construct climate benchmarks (Action 5); iii) guidelines to enhance climate-related corporate disclosures (Action 9); and iv) a European green bond standard (Action 2). This work resulted in two EU Regulations, one on classification of sustainable environmental activities or taxonomy,[12] and another on climate benchmarks and sustainability-related disclosures for benchmarks (see Table 2). Also, regarding corporate disclosures, the European Commission has developed guidelines for climate-related reporting, complementing

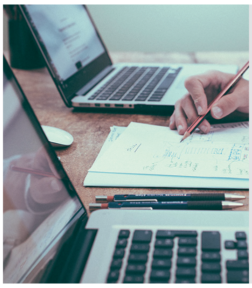
11 See FSB (2020a and 2020b) and BCBS (2020, 2021a, 2021b) on the inclusion of climate change-related risks in the regulatory and supervisory environment.

12 The European Commission is working on the technical criteria for all six environmental objectives established in the taxonomy: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

Figure 2
EUROPEAN COMMISSION ACTION PLAN ON FINANCING SUSTAINABLE GROWTH

1. REORIENTING CAPITAL FLOWS TOWARDS A MORE SUSTAINABLE ECONOMY

- **Action 1:** Establishing an EU classification system for sustainable activities
- **Action 2:** Creating standards and labels for green financial products
- **Action 3:** Fostering investment in sustainable projects
- **Action 4:** Incorporating sustainability when providing financial advice
- **Action 5:** Developing sustainability benchmarks



2. MAINSTREAMING SUSTAINABILITY INTO RISK MANAGEMENT

- **Action 6:** Better integrating sustainability in ratings and market research
- **Action 7:** Clarifying institutional investors' and asset managers' duties
- **Action 8:** Incorporating sustainability in prudential requirements

3. FOSTERING TRANSPARENCY AND LONG-TERMISM

- **Action 9:** Strengthening sustainability disclosure and accounting rule-making
- **Action 10:** Fostering sustainable corporate governance and attenuating short-termism in capital markets

SOURCE: Devised by authors, drawing on European Commission (2018).

its guidelines on non-financial reporting, and in April 2021 it adopted a proposal for a new Corporate Sustainability Reporting Directive (CSRD) which introduces stricter ESG reporting requirements and broadens the scope of application compared with the existing non-financial reporting directive (NFRD). In addition, in March 2021, Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector became applicable. As regards the development of a European green bond standard, in early July 2021 the European Commission presented its proposal based on a voluntary framework, aligned with the taxonomy, whose key characteristics are its transparency, the need for external review and the fact that it is supervised by the European Securities and Markets Authority (ESMA).

For some specific actions of the Action Plan, the European supervisory authorities – EBA (European Banking Authority), ESMA and EIOPA (European Insurance and Occupational Pensions Authority) – were called upon to provide guidance on how sustainability considerations can be taken into account in the legislation, and to identify gaps. These authorities are entrusted with specific mandates in the relevant

Table 2
WORK OF THE TECHNICAL EXPERT GROUP (TEG) AND ITS LINK TO THE WORK UNDERTAKEN UNDER THE EUROPEAN COMMISSION'S ACTION PLAN

Area	TEG	European Commission - Actions and associated Regulations
Taxonomy	TEG Final report on EU taxonomy (2020)	Linked to ***Action 1 of the Action Plan:*** "Establishing an EU classification system for sustainable activities" *Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088* The European Commission is working on delegated acts on the six environmental objectives on which the taxonomy is based
European Green Deal	TEG Proposal for an EU Green Bond Standard (2019)	Linked to ***Action 2 of the Action Plan:*** "Creating standards and labels for green financial products" *Commission proposal for a European green bond standard (EUGBS) (2021)* Also linked to Action 2, the European Commission is working on an EU ecolabel for retail investment products
Benchmarks	TEG Final report on climate benchmarks and benchmarks' ESG disclosures (2019)	Linked to ***Action 5 of the Action Plan:*** "Developing sustainability benchmarks" *Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks*
Disclosures	TEG Report on climate-related disclosures (2019)	Linked to ***Action 9 of the Action Plan:*** "Strengthening sustainability disclosure and accounting rule-making" *Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01)* To strengthen Action 9, in the European Green Deal the Commission undertook to review the Non-Financial Reporting Directive (NFRD). In this connection, in April 2021 it adopted a proposal for a new Corporate Sustainability Reporting Directive (CSRD)

SOURCE: Devised by authors.

sectoral legislation. In particular, as regards Action 10, the three authorities were asked to collect evidence of any undue short-term pressure from capital markets on corporations.[13] Also, linked to Action 8 of the Action Plan, the EBA will assess, as part of its own Action Plan on Sustainable Finance,[14] whether dedicated prudential treatment related to assets or activities associated with environmental or social objectives would be justified.

The work of the TEG is further pursued through the Platform on Sustainable Finance, created by the European Commission in October 2020 to: i) advise the Commission on the technical screening criteria for the EU taxonomy; ii) advise the Commission on the review of the Taxonomy Regulation and on covering other sustainability objectives, including social objectives and activities that significantly harm the

13 The EBA published its report in December 2019 (see EBA, 2019a).

14 The EBA has drawn up its own Action Plan (see EBA, 2019b), with the aim of improving the current regulatory framework to encourage the introduction of sustainability considerations in risk strategy and management, providing supervisors with the proper tools to understand, monitor and assess ESG risks in their supervisory practices.

Figure 3
TIMELINE OF EUROPEAN COMMISSION WORK ON SUSTAINABLE FINANCE

SOURCE: Devised by authors.

environment; iii) monitor and report on capital flows towards sustainable investments; and iv) advise the Commission on sustainable finance policy more broadly.

Building on the Action Plan, the European Commission's Renewed Sustainable Finance Strategy (RSFS) was presented in early July 2021.[15] The RSFS aims to create a framework to enable private investors and the public sector to contribute to the transition to sustainability, and a more inclusive sustainable finance framework that improves the resilience of the financial sector and fosters global action (European Commission, 2021). This new strategy is part of the European Green Deal launched by the European Commission in late 2019 (see Figure 3) which sets a roadmap for "making Europe the world's first climate-neutral continent by 2050". In order to achieve this goal, the Green Deal includes a wide-ranging raft of measures, such as a European Climate Law, the adoption of a European Industrial Strategy, a Circular Economy Action Plan and a EU Biodiversity Strategy for 2030, taking into account the need for a just transition and for the mobilisation of financial resources to fund it.[16]

The Sustainable Europe Investment Plan, which is the investment pillar of the European Green Deal, envisages the mobilisation of at least €1 trillion in sustainable investments over the next decade through the EU budget. It will create an enabling framework for private investors and the public sector and will provide tailored support to public administrations and project promoters in identifying, structuring and executing sustainable projects. Additionally, the Next Generation EU (NGEU) programme, launched in May 2020 to boost the recovery from the COVID-19 crisis, entails increasing the EU budget by €750 billion over the period 2021-2027, with 37% of the funds linked to European Green Deal objectives and 30% financed through

15 Press release of 6 July 2021: "Commission puts forward new strategy to make the EU's financial system more sustainable and proposes new European Green Bond Standard".

16 For further details see: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en.

issuance of green bonds. In this transition process, the European Investment Bank has also drawn up a roadmap to become a climate bank, supporting the objectives of the European Commission's Action Plan and sustainable development.

Although, in recent years, work has focused on environmental issues, the aim is to go beyond purely climate-related and environmental matters, to take into account social and governance aspects. The European Commission plans to develop and integrate social factors in the coming years, for example with the design of a social taxonomy.[17]

Conclusions

Climate change poses various important challenges, both for society and the economy and, in particular, for the financial system. In order to address these challenges, a better understanding is needed of the characteristics of climate change-related risks and of the transformations needed to achieve a carbon-neutral economy. The transition will require high levels of financing, which is why the role played by the financial system in channelling these funds is so important in this process. Standardisation and transparency is also needed, to ensure that markets are able to efficiently allocate funds to activities identified as sustainable.

In recent years, various initiatives have been launched, from the public and the private sector and in some cases jointly, to share experiences, better understand the implications of climate change for the financial system and mobilise the funds needed to achieve a carbon-neutral economy. Since 2015 when the Paris Agreement and the 2030 Agenda were signed, work has been undertaken in various spheres, by the G20, the United Nations, the European Commission and central banks. In particular, the European Commission has been working since 2018 through its Action Plan on Financing Sustainable Growth, paving the way for its Renewed Sustainable Finance Strategy and the European Green Deal which aims to make Europe the first climate-neutral continent by 2050.

The work under way to combat climate change and achieve a carbon-neutral economy from the standpoint of sustainable finance has acquired greater momentum in the current situation, as one of the aims for the recovery is that account be taken of the transition towards a sustainable economy. In addition, although until recently the focus had been primarily on environmental matters, that is, on the "E" in "ESG", COVID-19 has highlighted the importance of social matters. Accordingly, the question of how to include the "S" and the "G" in the realm of sustainable finance is also now beginning to be addressed. The inclusion of these factors in a fully sustainable economy will foreseeably attract growing attention.

8.9.2021.

17 The Platform on Sustainable Finance is working on a draft report on a social taxonomy, first published on 12 July 2021.

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Box 1
BANKING SECTOR CLIMATE COMMITMENTS

In September 2019, 132 banks from 49 countries signed the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI), undertaking to: i) align their business strategy to contribute to the Sustainable Development Goals (SDGs); ii) increase their positive impact, managing the risks to people and the planet resulting from their activities, products and services; iii) work responsibly with their customers to encourage sustainable practices; iv) proactively engage with relevant stakeholders to achieve society's goals; v) implement effective governance and a culture of responsible banking; and vi) periodically review the individual and collective implementation of the principles and be transparent about their contribution. As at June 2021, 230 banks had signed up to these principles.

Of the 132 banks, 38 have also signed the Collective Commitment to Climate Action, undertaking to align their portfolios to finance a low-carbon and climate-resilient economy to meet the temperature goals of the Paris Agreement, take specific measures within one year from signing, and use their products, services and customer relationships to facilitate the necessary economic transition to climate neutrality. They also agreed to be publicly accountable for progress made.

At the COP25 held in Spain, the main Spanish banks, representing over 95% of the sector, signed the Sectoral Climate Action Agreement. This commitment implies publishing measures to support the shift to low-emission climate-resilient technologies and business models within a year, and specific targets within three years, while developing methodologies to assess the impact of climate-related risks and align their balance sheets with the Paris Agreement (see AEB, 2019).

The Spanish Centre for Responsible and Sustainable Finance (FINRESP) was also launched at the COP25 to drive and promote sectoral actions aimed at contributing to the implementation of the Paris Agreement, with the participation of the Spanish Banking Association (AEB), the Spanish Confederation of Savings Banks (CECA), the Spanish Association of Credit Cooperatives (UNACC), the Spanish Association of Collective Investment Schemes and Pension Funds (INVERCO) and the Spanish Association of Insurers and Reinsurers (UNESPA) (see FINRESP, 2019). It is part of the Financial Centres for Sustainability (FC4S) network, promoted by UNEP to achieve the SDGs and comply with the Paris Agreement.

Additionally, in 2021, over 45 banks from 24 countries undertook to align their lending and investment portfolios with net-zero emissions by 2050 through the United Nations Net-Zero Banking Alliance. This initiative seeks to reinforce, accelerate and support the implementation of decarbonisation strategies. It participates in the United Nation's Race to Zero and is the banking element of the Glasgow Financial Alliance for Net-Zero. The Alliance is convened by UNEP FI and was co-launched by the Prince of Wales' Sustainable Markets Initiative Financial Services Taskforce.

Box 2

INCORPORATION OF CLIMATE ISSUES BY ASSET MANAGERS

Portfolio managers and institutional investors are incorporating environmental, social and governance (ESG) criteria, and particularly climate-related aspects, into the design and implementation of their investment strategies. In recent years, several initiatives have been launched bringing together the main asset managers worldwide with the aim of achieving carbon-neutral investment portfolios by 2050. Among them are the United Nation's Principles for Responsible Investment (PRI), the UN-Convened Net-Zero Asset Owner Alliance (launched in September 2019) and the Net-Zero Asset Managers Initiative (launched in December 2020).

Under the United Nation's UNEP FI programme, the PRI have an international network of 4,000 signatories, including asset managers, asset owners and service providers, launched in 2006 with the aim of promoting environmental and social responsibility among investors. The principles are voluntary and are based on the notion that environmental, social and governance issues can affect the performance of investment portfolios and therefore need to be taken into account alongside traditional financial factors. Specifically, PRI signatories undertake to integrate ESG considerations into investment practice through the following principles: i) incorporating ESG issues into investment analysis and decision-making processes; ii) being active owners and incorporating ESG issues into ownership policies and practice; iii) seeking appropriate disclosure on ESG issues by the entities in which they invest; iv) promoting acceptance and implementation of the Principles within the investment industry; v) working together to enhance effectiveness in implementing the Principles; and vi) reporting on the activities and progress towards implementing the Principles.

In June 2020 the global Race to Zero initiative was launched under the United Nations Framework Convention on Climate Change (UNFCCC), with the aim of having its members, which include investors, commit to driving the shift towards a decarbonised economy before the 26th UN Climate Change Conference (COP26). The UN-Convened Net-Zero Asset Owner Alliance, which has joined Race to Zero, comprises 42 institutional investors committed to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050. The Net Zero Asset Managers Initiative, which is also part of Race to Zero, is made up of 128 asset managers committed to achieving net-zero emissions by 2050.

Acronyms and abbreviations in sustainable finance

AEB	Spanish Banking Association
BCBS	Basel Committee on Banking Supervision
CECA	Spanish Confederation of Savings Banks
COP	Conference of the Parties to the United Nations Framework Convention on Climate Change
CSRD	Corporate Sustainability Reporting Directive
EBA	European Banking Authority
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, Social, Governance
ESMA	European Securities and Markets Authority
EUGBS	European green bond standard
FC4S	Financial Centres for Sustainability network
FINRESP	Spanish Centre for Responsible and Sustainable Finance
HLEG	High-Level Expert Group
INVERCO	Spanish Association of Collective Investment Schemes and Pension Funds
IPSF	International Platform on Sustainable Finance
NFRD	Non-Financial Reporting Directive
NGEU	Next Generation EU
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
PRI	Principles for Responsible Investment
RSFS	Renewed Sustainable Finance Strategy
SDGs	Sustainable Development Goals
TCFD	Task Force on Climate–related Financial Disclosures
TEG	Technical Expert Group
TNFD	Task Force on Nature-related Financial Disclosures
UNACC	Spanish Association of Credit Cooperatives
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNESPA	Spanish Association of Insurers and Reinsurers
UNFCCC	United Nations Framework Convention on Climate Change