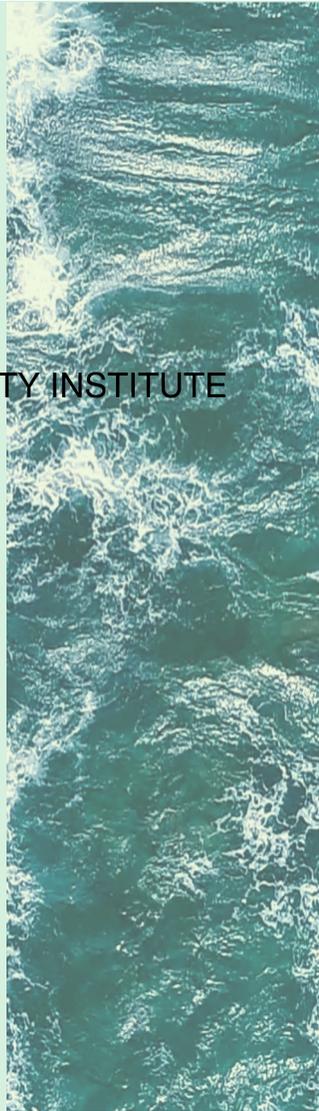


The sustainability of the EU's approach to sustainable finance

A €2.5 trn question



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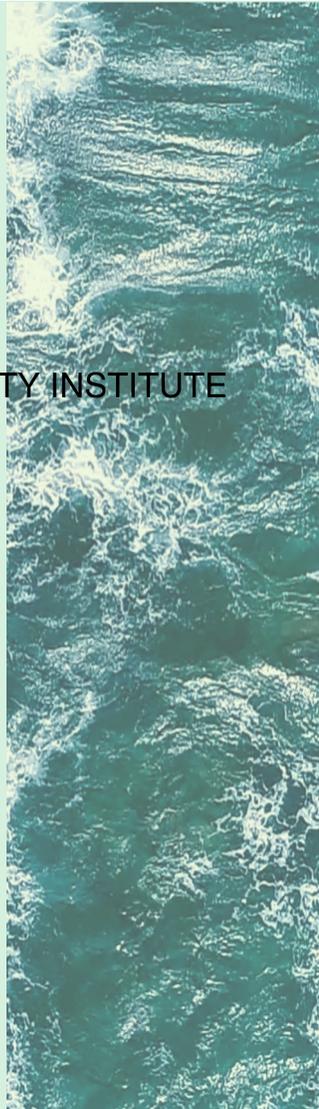
International Sustainability Institute Channel Islands

'Sustainability takes many forms'

- *Promote global fiscal, financial and environmental sustainability*
- *Develop sustainable research and thought*
- *Advocacy, research, advisory*



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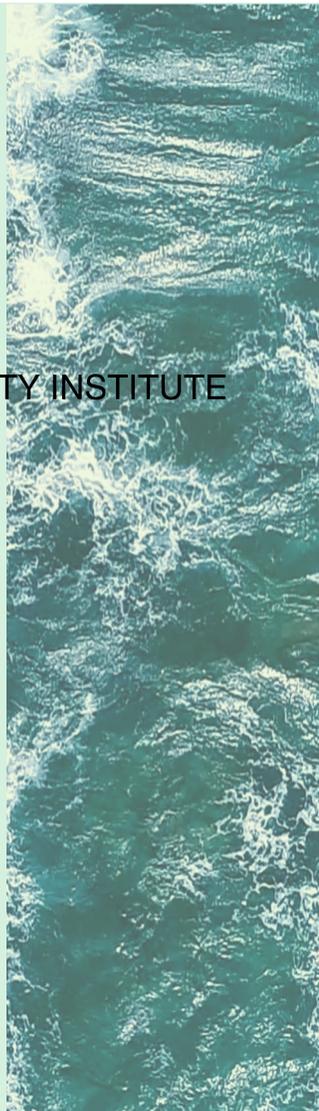
Our synopsis

'The finance sector has still to fully absorb the significantly higher costs of the increased regulatory burden of the last decade and is now having to come to terms with a very different and inflationary investment outlook.'

'We believe in TCFD and that TCFD reporting can serve as a sensible, less expensive, proxy for general sustainability issues.'



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Regulatory mandates

Twin peaks

- *Conduct and prudential*

Macroprudential

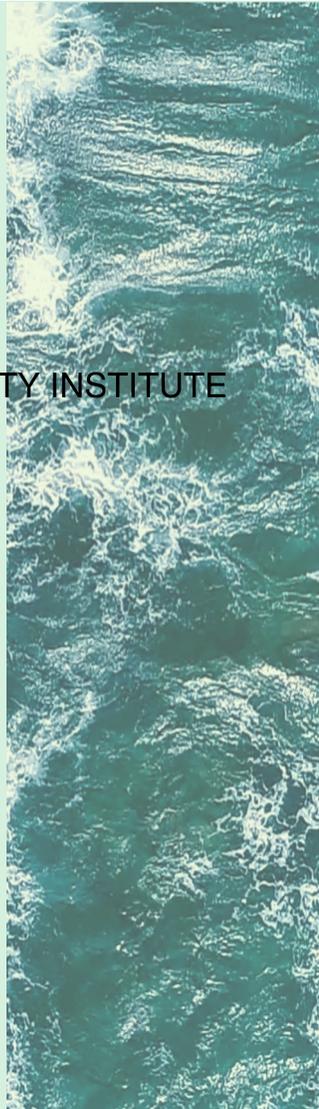
- *Financial stability*

EU's sustainable finance programme is a spin out of CMU

- *Capital market efficiency, harmonization and increased capital flows*

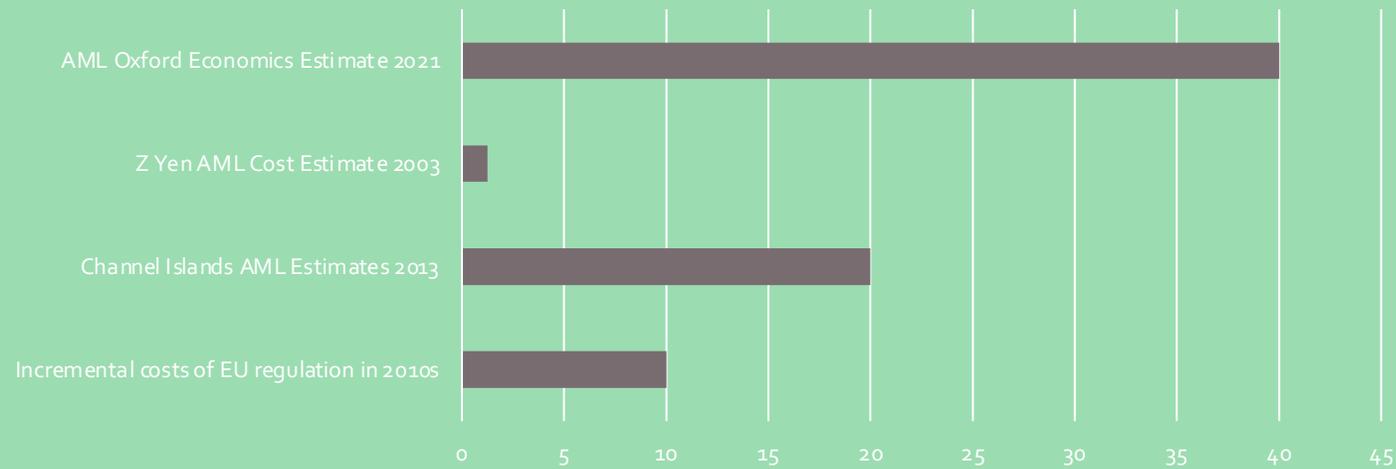


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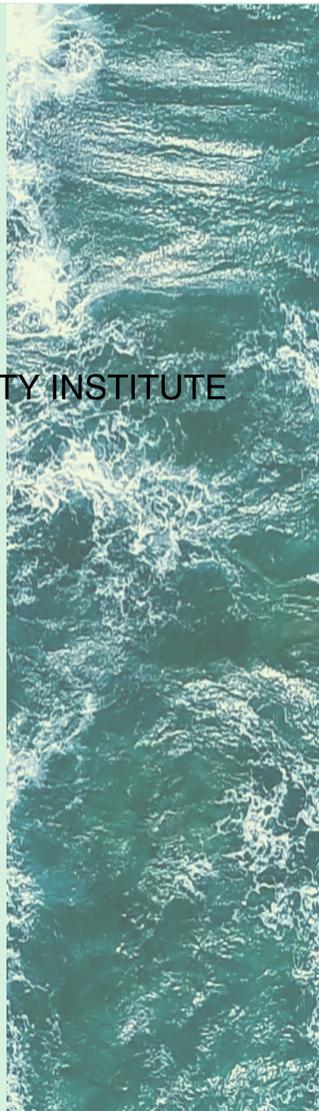


Regulatory costs

Regulatory costs as percentage share of total costs

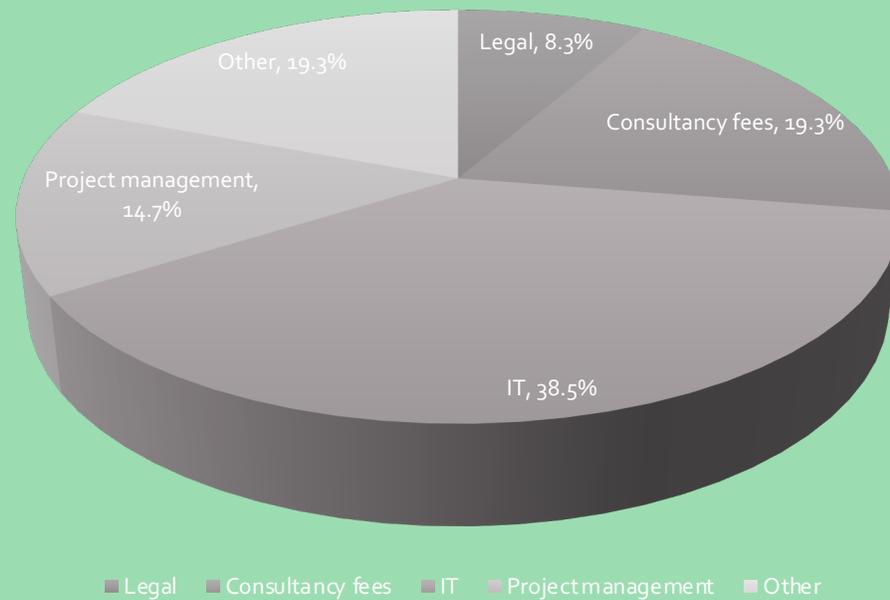


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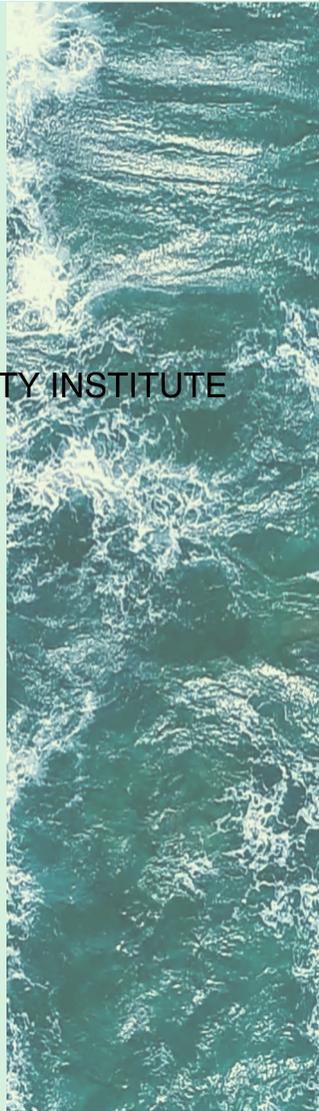


Regulatory costs

Typical breakdown of regulatory implementation costs

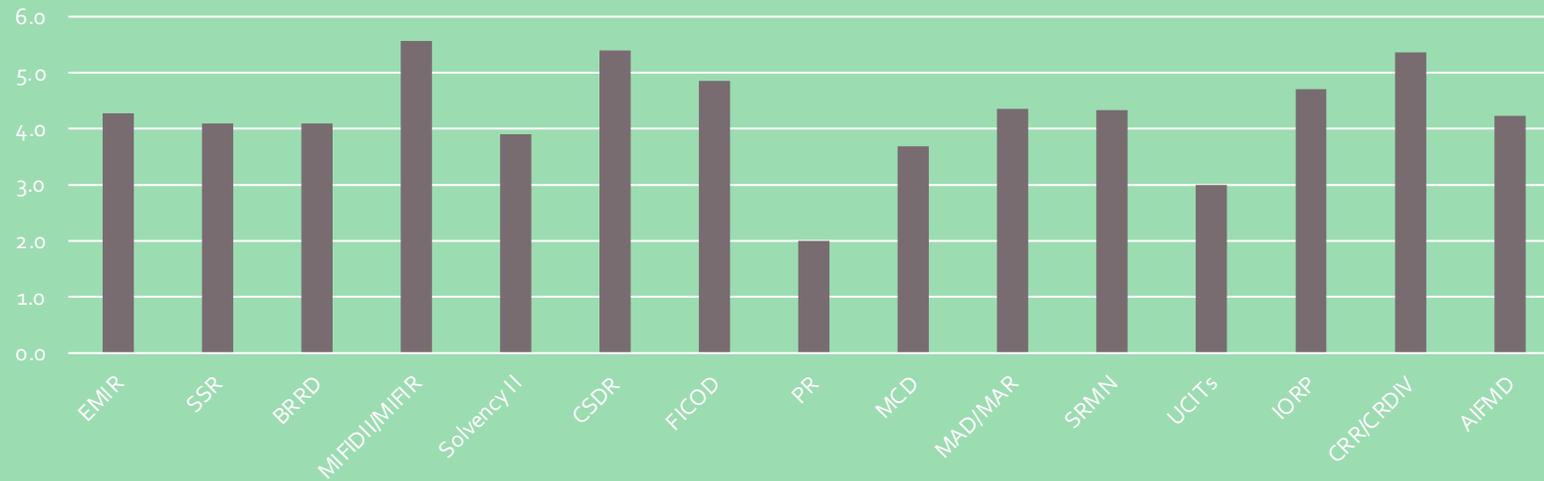


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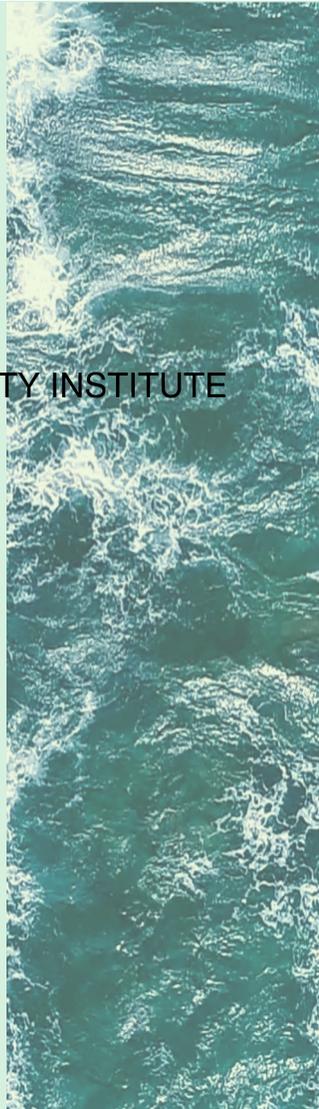


Regulatory costs

Ratio of actual cost to first (European Commission) estimate of various financial regulations



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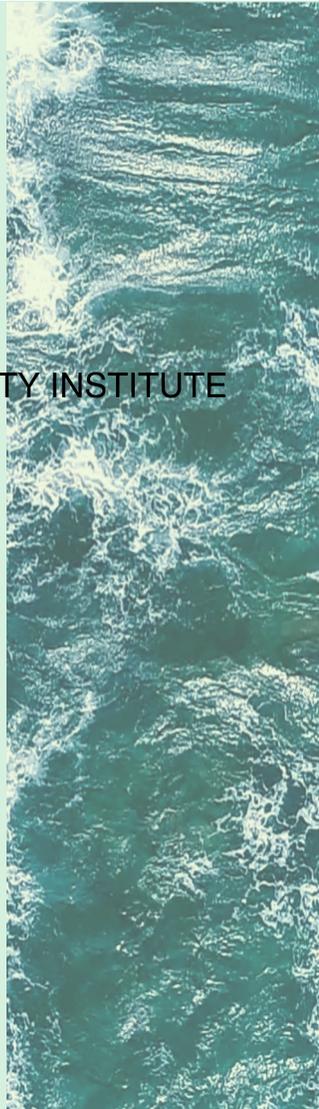
Methodology

- *Bottom up models*
- *Two methods, triangulated.*
 1. *Simple survey*
 2. *Construction from first principles*

Aggregated on basis of two alternative estimates of industry costs



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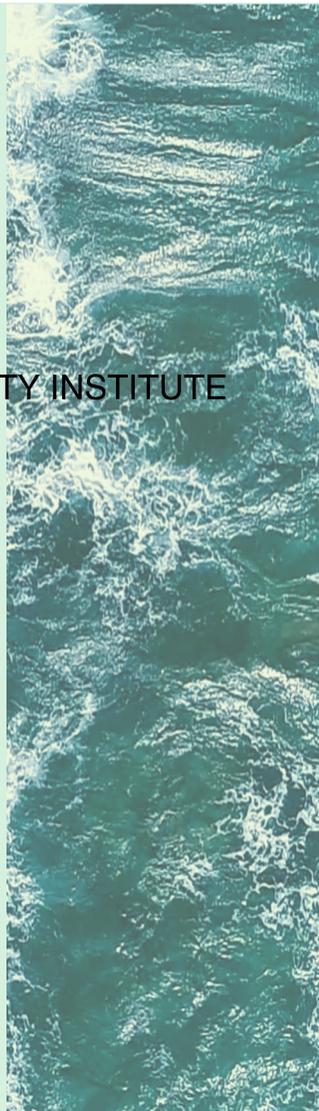
Regulatory costs of SFDR et al

'We derive an annual incremental operating cost of between €36bn and €48bn for implementation of sustainable finance regulations across the EU27'

Cumulative capital loss to 2050 net zero



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A sensible alternative?

ESG should be boiled down to one simple measure: emissions

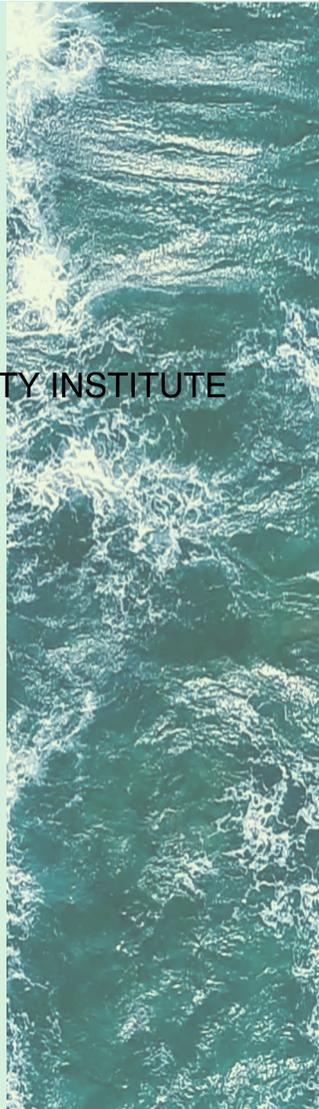


Mark Harris

Courtesy The Economist, July 2022.



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Conclusion

"We believe that expensive requirements for ESG type reporting of variables of ambiguous value risks undermining the cause of finance and in our view the UK is taking the better course with its focus on incorporating TCFD requirements."

ISICI, 'How sustainable is the EU's sustainable finance regulation?', March 2022



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