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On 24 May 2018, the European Commission ('EC') presented an action plan on sustainable finance to establish a framework to facilitate sustainable investment ('taxonomy') and create a unified classification system on what can be defined as environmentally-sustainable economic activities (1); to introduce new disclosure obligations for investors and asset managers (2); to create a new category of benchmarks comprising low-carbon and positive carbon impact benchmarks (3).

Mr. Scharfe, what makes Luxembourg a leading international platform for sustainable finance and how can companies established in Luxembourg take full advantage of it?

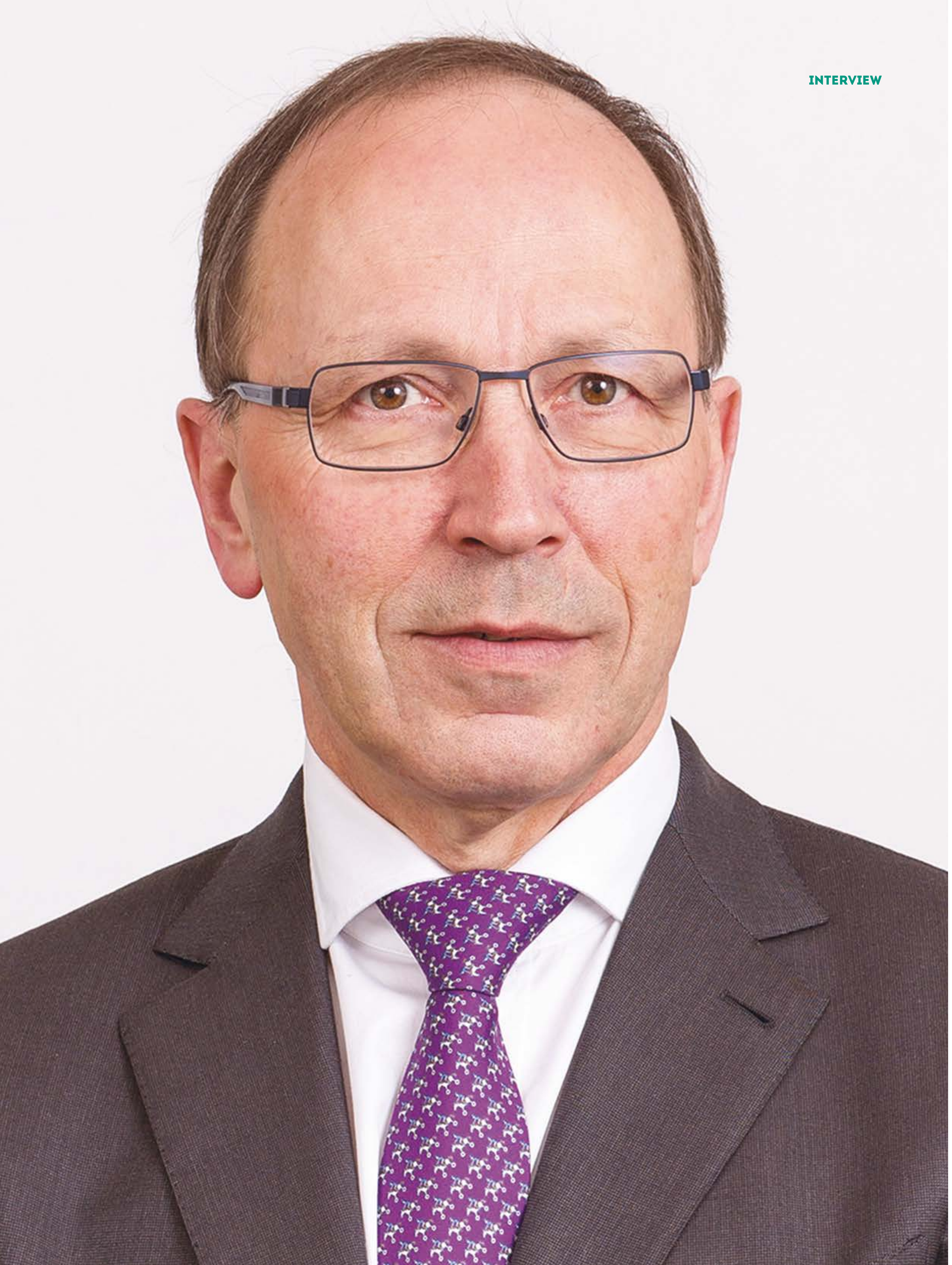
In my view, it is only natural that Luxembourg takes a leading role in sustainable finance. Luxembourg is the biggest fund centre in Europe and only second to that of the United States globally. Our financial traditions go back decades and as a country, we have built up and nurtured a financial sector know-how that has kept our financial centre at the forefront of financial developments. Today, Luxembourg offers a diverse and thriving ecosystem that financial institutions and other companies can benefit from to secure and accelerate continuous growth. In other words, thanks to its important financial centre - and the role that finance plays in its overall economy - Luxembourg has the perfect starting point for developing and driving sustainable finance. But we should not stop there, we should be even more ambitious. Sustainable finance is not the objective in itself, it is only a means to reach a much broader goal, which is sustainable economic development as defined by the United Nations Sustainable Development Goals and the Paris Climate Agreement. We will only reach these goals if we manage to channel public and private capital flows into green, social and sustainable investment projects. Luxembourg has the knowledge, resources and ecosystem needed to become a true leader in sustainable finance and thereby drive sustainable development. As importantly, we have the political will to do so. This is for instance demonstrated by the close collaboration between the Ministry of Finance and the Ministry of the Environment, Climate and Sustainable development, and the definition of the Sustainable Finance Roadmap that establishes clear ambitions for the development of sustainable finance in Luxembourg. Another example is the Luxembourg Green Exchange – also called LGX – that the Luxembourg Stock Exchange established three years ago. LGX is a platform exclusively dedicated to sustainable finance instruments and today it has a 50% global market share of listed green, social and sustainability bonds. LGX is therefore an important window for companies and institutions that seek funding for sustainable investment projects. Companies based in Luxembourg can not only tap into this ecosystem, but become part of it. New services will be needed, investors are becoming more and more impact-conscious and they need guidance. Companies are challenging their own business models and supply chains and increasingly focus on Environmental, Social and Governance aspects, on which they will need to report in the future, both internally and externally. We are seeing a radical, but necessary change in the financial system overall. Luxembourg is on the right track, but the pace of change needs to accelerate in the coming months and years.

What is the scope of the EU action plan on sustainable finance and which financial products will be affected?

The action plan has three main objectives. In short, it sets out to:

- Reorient capital flows towards sustainable investments
- Manage financial risks linked to climate change and social issues
- Install transparency and long-termism in financial activity.

The scope of the action plan is very broad and in reality, it encompasses an array of sectors and industries in addition to the financial sector. Sustainable development concerns us all, whether we work in finance or in any other part of the economy, and we can all contribute to the global goals. Sustainable development is a shared responsibility. The EU has furthermore established three ambitious climate and energy targets for 2030 and strives to reach net-zero greenhouse gas emissions by 2050. The yearly investment gap needed to meet these targets is estimated to be around EUR 180 billion, which cannot be covered by public money alone. The private sector will have to step up and take its part of the responsibility, and for this to happen, private investment in sustainable projects should be incentivised. It is against this backdrop that the EU action plan on financing sustainable growth was born. In terms of capital markets activity, most financial instruments will be concerned by the action plan, given that it brings transparen-



cy and long-term impact centre stage. As the Luxembourg Stock Exchange is a leading listing venue for international debt securities, I would like to highlight the EU Green Bond Standard (GBS) in this context. The working group on GBS of the Technical Expert Group on sustainable finance established by the European Commission published its final report in June this year, along with a proposed taxonomy that will be an integral part of the new framework. At LGX, we follow - among other standards - the International Capital Market Association Green Bond Principles when screening a bond's eligibility for display on our green exchange. ICMA's principles are widely recognised as the accepted market standard when defining how to issue a green bond. The EU Green Bond Standard, on the other hand, goes beyond current market practice, and introduces additional rigour and requirements. The activities that are funded by a green bond must furthermore be aligned with the EU taxonomy. To illustrate some of the differences - the EU Green Bond Standard requires third-party verification of both the green bond framework and the allocation report, thereby stepping up the quality requirements. The standard also requires the external reviewers to be accredited by a centralised, European authority to ensure neutrality and a harmonised approach. To summarise, the EU Green Bond Standard establishes a framework that goes beyond current best market practice, and introduces a set of new requirements. The result will mean more transparency for investors and a best-in-class quality stamp for issuers of green bonds. The overarching goal is of course to boost investments in green finance and to unlock sustainable capital.

To be considered environmentally-sustainable, economic activities will have to comply with technical screening criteria established by the EC. How important is the industry and real economy's participation in determining those criteria?

It is extremely important. The involvement of industry players is absolutely essential in the process of establishing a framework that is realistic, comprehensive and relevant, and that brings real and long-term change. The European Commission realised this, which led to the establishment of the High-Level Expert Group (HLEG) on sustainable finance. The HLEG was commissioned to define a set of recommendations on how to drive sustainable development through a regulatory agenda. These recommendations served as an important basis for the EU's action plan on financing sustainable growth. The concepts and ideas presented in this action plan are currently being further detailed by the Technical Expert Group on sustainable finance. The HLEG comprised 20 senior experts from civil society, the financial sector and academia, while the Technical Expert Group was composed of 35 experts from 15 different economic sectors. The Luxembourg Stock Exchange was mandated to take part in both of these expert groups, to share our industry knowledge and perspectives, and to feed new policy developments, which would be accepted and used by financial markets. The taxonomy and the technical screening criteria recently released by the TEG constitutes in essence a unified EU green classification system to determine if an economic activity is environmentally sustainable. The report was established with the involvement of around 10 experts representing the financial sector, the industry, professional associations, NGOs and European institutions. It contains technical screening criteria for 67 activities across 8 sectors that can make a significant contribution to climate change mitigation. It is important to remember that the EU Green Bond Standard and the taxonomy are not final nor approved by the European Commission at this stage. The taxonomy is undergoing a public consultation and is likely to be adapted based on further feedback from the market and the public before it is implemented. This open and inclusive process is essential to ensure adherence to the new framework. The EU Green Bond Standard has the potential to propel investments in some activities and reduce investments in others, and it is important that industry experts are involved in the process of defining the framework and the applicable rules.

How can sustainable finance support those economic activities and energy-intensive industries that are not considered "environmentally-sustainable" but need access to substantial investments to realise the transition path?

The taxonomy will most likely include provisions for different economic activities that allow for progressive adaptation. As for most major legislative changes, there will be a more or less extended transition period. The new framework is ambitious and far-reaching, and we cannot change the rulebook overnight. It is indeed important that activities that are not environmentally sustainable today can access funding to become more sustainable tomorrow, but there should be harmonised rules in place. Transitions take time. We are already seeing examples of such transition frameworks in China. The central bank, the People's Bank of China oversees green bond issuance on the China interbank bond market (CIBM) and operates with a framework for green bonds that differs from international standards, mainly to allow for the transition into a carbon-neutral economy. For China to become carbon-free, it first needs to reduce its dependency on coal and develop new sources of renewable energy, and financing is needed in this process. It is however extremely important that we establish a common language for green finance. There should be no doubt in investors' minds as for what constitutes a green instrument. Investors should be able to compare the environmental impact of different investment opportunities and have open access to transparent and meaningful data. I therefore welcome the current efforts of the EU and China to harmonise different green finance frameworks and move towards convergence of different standards. This is a complicated, yet necessary step.

What do you expect to be the next steps for sustainable finance?

I am optimistic as for the future of sustainable finance. There is no way back and at some point, every company and every institution will need to adhere to sustainable principles if they want to be successful in the future and maintain or develop their customer base. We need to understand that there is no contradiction between economic growth and sustainable development, and that it is important that we act more responsibly and consider the impact of our actions on the planet and on society at large. We need to green the financial system overall, and make finance part of the solution. Look at the "Fridays for Future" movement that gained enormous traction across Europe and the world and mobilised hundreds of thousands of young people concerned about their future. Look at the flight shame campaign that made thousands of Swedes exclude planes in their holiday planning, a mindset that is now spreading far beyond Scandinavia. Investors are people, and people care about sustainable development and they want to contribute to creating a fairer and more inclusive society.

The financial system needs to become more transparent. Investors want to know where their money is going and what overall impact their investments will have – investment decisions are no longer based exclusively on the prospects of financial returns. Increasingly, investors will steer away from companies that are not considering ESG aspects, and that operate in industries that have a direct negative impact on our planet and on society. Public pressure and a radical change in investor demand AND consumer behaviour are powerful drivers of systemic and societal change. Sustainability needs to become fully part of our businesses, in manufacturing as much as in services. Here I would like to refer to the former US Vice President Al Gore, who said that "Sustainability is the single biggest business opportunity since the industrial revolution." Sustainability should thus not be considered as a constraint to business, but as a real opportunity. The same applies to finance: Sustainable finance is not a trend that will blossom and then fade away. Sustainable finance is the new finance, supporting the real economy and will become the new norm.

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