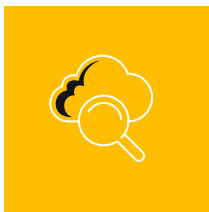


SUSTAINABLE FINANCE

POSITION OF FINANCE LATVIA ASSOCIATION



INTRODUCTION

“Deep-rooted shifts in values, norms and consumer culture and world views are an inescapably part of the great sustainability transformation.”¹ Latvia recognises the challenge and commits to “breaking unsustainable social patterns”.² The Latvian Government has approved the Latvia 2050 strategy for climate neutrality and adopted the National Climate and Energy Plan³, highlighting long-term vision and medium-term priorities. It mirrors Latvia’s EU commitments⁴, the climate change mitigation plan 2030 provides scenarios of risks as well as opportunities of climate change in Latvia.

The growing awareness of economic actors as well as a growing body of standards, codes⁵ and regulations⁶ help to shape solutions for integrating environmental, social

and governance (“ESG”) considerations as part of financial decisions. The choice of tools to address the climate urgency calls for a holistic and multidisciplinary approach and a decisive collaboration of public and private actors. Solutions folding short-term decisions into sustainable performance are the keys to reorienting financial flows towards measurable sustainable goals.

Finance Latvia Association (hereinafter – Association) will focus on five key areas (see below) necessary to enable a sustainable finance system in Latvia and to grasp the economic opportunities that stem from mitigating the climate and social change⁷. Cooperation and partnerships are essential to tailor the contribution of the financial sector in support to a climate-neutral economy.



KEY FOCUS AREAS

1. Compliance with the EU policy

A clear policy guidelines and commitments:

— A clear commitment and direction will leverage the collective power of the financial services industry to integrate and facilitate a sustainable choice. Clarity of goals helps financial service providers assess the business case, - and accelerate transition.

2. Building competence and raising awareness

Contributing to the financial literacy and to an understanding of sustainable financial and social choices:

— Risks and effects of transition will render common knowledge obsolete and requires new templates for smart and prudent financial options and decisions;
 — We encourage and will support public sector initiatives of defining, creating as well as sharing sustainability-relevant information.

3. Cooperation, including public-private partnerships in finance

A public-private partnership is essential to better define climate-material risks and sound risk management:

— A robust public-private partnership rests on transparent platforms enabling exchange of information on transformational goals, as well as the risk-appetite of public partners;
 — Commitment of public capital can serve to unlock and encourage private finance. Joint identification of market priorities and gaps combined with agreement on principles for development and rollout of blended finance initiatives, will encourage and sustain innovative financial solutions.

4. ESG-relevant data

Transparency and data availability:

— Disclosure and exchange of ESG and especially climate-material information is an essential precondition to implement climate-transition commitments;
 — Government and financial service providers shall cooperate to define the information material for the ESG integration in services and in decision-making;
 — Association will use existing frameworks and best practice to provide guidance for reporting as well as guidelines for Association members and their business partners.⁸

Disclosure, reporting and exchange of ESG relevant information:

— National rules for ESG related and climate material reporting for public as well as private entities, particularly SMEs, is a precondition for a broad awareness and uptake;
 — We encourage use of innovative solutions and technologies (such as open data, RegTech, automated data exchange) to decrease the administrative burden of new reporting requirements.

5. ESG the core of the decision-making process⁹

Economic, Environmental and Social profitability is measured on a long-term basis:

— Integrate ESG and develop long term sustainable business models;
 — Assimilate ESG criteria in business practice;
 — Improve customer experience with sustainable products/services.



ASSOCIATION MEMBERS' SUSTAINABILITY COMMITMENT

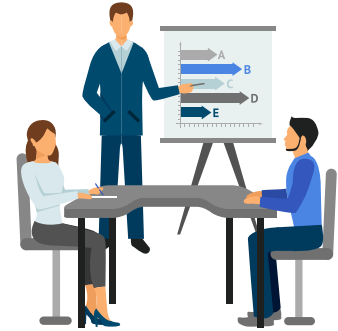
- 1.** Embrace the risks related to sustainability as an integral part of regular business and strategy to protect the financial stability of the enterprise and the public interest.
- 2.** Establish risk management framework for ESG risks.
- 3.** Ensure financial services are designed in a responsible manner and protect customers, shareholders and society from ESG risks.
- 4.** Ensure responsible lending: lender responsibility starts before and continues throughout the lending process, from loan origination to maturity.
- 5.** Foster ESG smart investment, offer businesses and customer sustainable choices:
 - Shifting to sustainable primary as well as secondary energy;
 - Contributing to the energy efficiency of public facilities and housing;
 - Raising energy efficiency of production – processes, technologies as well as production facilities and delivery channels;
 - Encouraging sustainable consumption.
- 6.** Be a good corporate citizen, ensuring that all relationships, with customers, staff and suppliers are guided by strong, current and effective standards of professional ethics and morale. Implement robust practices of sustainable governance while managing business and service delivery, including evaluating sustainability of procurement value chains of the enterprise.





IMMEDIATE ACTIONS

- 1.** Early assessment and identification of specific potential risks stemming from climate (such as change, environmental degradation) based on geographic space and economic activity.
- 2.** Define priority areas, where the highest impact can be achieved in Latvia and focus our efforts on developing set of tools for ESG integration therein.
- 3.** Encourage and facilitate financial service providers to develop and improve their ESG strategies, risk management and evaluate existing financial products and investment.
- 4.** Raising public awareness on the ESG considerations as part of sustainable economic and financial choice including through services offered.
- 5.** Encourage and support a broad and inter-sectoral agreement on the required ESG-relevant climate-material data. Encourage the technical solutions for accessing as well as exchange of the data, including from public registers.
- 6.** Support developing sustainable financial instruments, including public-private finance.
- 7.** Share best practices of a dedicated sustainability assessment and reporting, including through own product design. In close cooperation with the European Banking Federation/ UNEP FI¹².





CONTEXT

The Action plan on Sustainable finance¹³, adopted by the European Commission on March 8, 2018, defines tools towards reaching goals of the Paris agreement of December 2015: (1) reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth, (2) manage financial risks stemming from climate change, environmental degradation and social issues, (3) foster transparency and long-termism in financial and economic activity.

The European Commission proposed¹⁴ soft law and regulation seminal for implementation of the Action plan – Regulation on Sustainability related disclosure in the financial sector¹⁵. EU has concluded discussion on EU Taxonomy for sustainable activities¹⁶, as well as the Agreement on carbon benchmarks¹⁷. The Commission has embarked on a review of the Non-Financial Reporting Directive¹⁸.

The European Commission presented a strategic long-term vision for a prosperous, modern, competitive and climate-neutral economy by 2050¹⁹ on May 9, 2019.

Finally, on December 11, 2019 the Council of the European Union have adopted the European Green Deal, complemented by an action plan for legislative and policy work till 2022²⁰, a framework is reflected in the Commission's 2020 work programme²¹.

1 Emissions gap report 2019, UN Environmental Programme, p X (Executive summary)

2 Klimat neitralitātes sasniegšanai plāno "lauzt" sabiedrības dzīvesveidu. LETA, 28.01.2020.

Klimata pārmaiņas jāizmanto kā iespēja Latvijas tautsaimniecības attīstībai: <https://www.mk.gov.lv/lv/aktualitates/jpuce-klimata-parmainas-jaizmanto-ka-iespeja-latvijas-tautsaimniecibas-attistibai>, Ministru Kabinets 28.01.2020

3 National energy and climate plan, <http://tap.mk.gov.lv/lv/mk/tap/?pid=40480261&mode=mk&date=2020-01-28>; Latvia's Strategy to achieve climate neutrality till 2050: <http://tap.mk.gov.lv/lv/mk/tap/?pid=40462398&mode=mk&date=2020-01-28> (in Latvian, January 28, 2020)

4 Kariņš; European Union's climate policy is an opportunity for Latvia's economy: <https://www.mk.gov.lv/en/aktualitates/karins-european-unions-climate-policy-opportunity-latvias-economy> (10.05.2019)

5 Global financial stability report: Lower for Longer (2019) <https://www.imf.org/en/Publications/GFSR/Issues/2019/10/01/global-financial-stability-report-october-2019#Chapter6> p.82

6 European Commission Action plan on sustainable finance (2018): https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en

7 Latvijas pielāgošanās klimata pārmaiņām plāns laika posmam līdz 2030.gadam, Adopted July 16, 2019

<http://tap.mk.gov.lv/lv/mk/tap/?pid=40467308&mode=mk&date=2019-07-16>

8 UNEP FI Principles of responsible banking as well as UN-supported Principles for responsible investment shape financial services design and governance for sustainable development, including and with a particular emphasis on climate transition.

9 UNEP FI Principles of responsible banking as well as UN-supported Principles for responsible investment shape financial services design and governance for sustainable development, including and with a particular emphasis on climate transition

10 Principles of Sustainable Banking, UNEP FI (2019): <https://www.unepfi.org/banking/bankingprinciples/>

11 Principles of Responsible Investment (2006): <https://www.unpri.org/>

12 A project to assess the extent to which the EU Taxonomy on Sustainable Activities could be applied to core banking products UNEP FI and European Banking Federation work group

13 European Commission. Action plan: financing sustainable growth, March 8, 2018: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>

14 Legislative proposals for sustainable finance: https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en

15 Regulation 2019/2088 on sustainability-related disclosures in the financial services sector <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>

16 Political agreement on Taxonomy on the establishment of a framework to facilitate sustainable investment

<https://data.consilium.europa.eu/doc/document/ST-14970-2019-ADD-1/en/pdf> December 17, 2019.

17 Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2089>, November 27, 2019

18 Review of the Non-financial reporting directive (active till 27.02.2020) https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2020-580716_en

19 2050 Long-term strategy, European Commission, November 28, 2019: https://ec.europa.eu/clima/policies/strategies/2050_en

20 European Green deal, December 11, 2019, Council of the EU: https://ec.europa.eu/commission/presscorner/detail/en/IP_19_6691

21 2020 Commission Work Programme, adopted on 29.01.2020, European Commission: https://ec.europa.eu/info/publications/2020-commission-work-programme-key-documents_en