



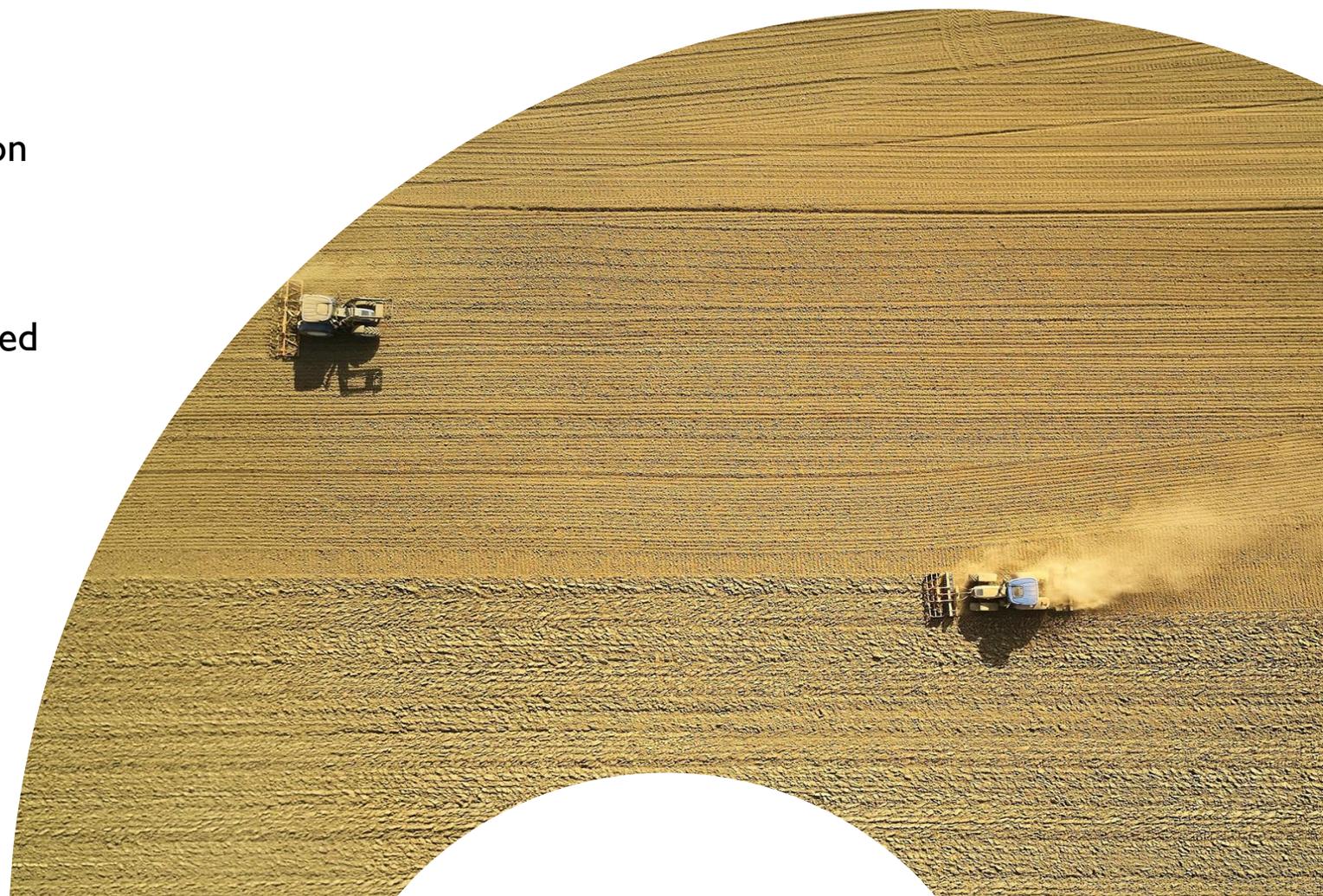
EU Sustainable Finance Update

4 November 2021

PROMOTING SUSTAINABILITY THROUGH
EUROPEAN FINANCIAL MARKETS

Agenda, 4 November 2021

- EU Taxonomy - State-of-play
- SFDR - Publication of the finalised RTS on Taxonomy-related product disclosures
- EU Banking Package - Sustainability-related provisions
- ISSB Standard



EU Taxonomy – State-of-Play

Status of Climate Delegated Act

- The so-called **Climate Delegated Act** (DA) stipulates the conditions that an economic activity must satisfy in order to contribute to the first two environmental objectives of the EU Taxonomy (Climate change mitigation & climate change adaptation) and thereby qualify as environmentally sustainable.
- The Climate DA has been adopted by the European Commission and is now subject to scrutiny by European Parliament and the Council of the EU.
- The scrutiny period for the Climate (DA) will end on the 7th December. The scrutiny period was extended at the request of the Council.



EU Taxonomy – State-of-Play

Status of Complimentary Delegated Act

- In parallel – the European Commission has committed to publishing a **Complimentary Delegated Act (DA)** that will clarify the treatment of natural gas & nuclear energy in the EU Taxonomy.
- The inclusion of natural gas & nuclear energy in the Taxonomy could potentially result in associated activities being labelled as environmentally sustainable – resulting in corresponding investments qualifying as green.
- The Complimentary DA was originally expected to be published in **Q1 2022** – a timing recently confirmed by Commissioner Mairead McGuinness in public comments to the FT in an article published on 20 October.
- However, the ongoing energy crisis has led several Member States to apply intense pressure to the European Commission to include natural gas & nuclear energy in the EU Taxonomy meaning the original timing has been revised.



EU Taxonomy – State-of-Play

Status of Complimentary Delegated Act

- Energy Commissioner **Kadri Simson** recently stated at an extraordinary meeting of Energy ministers in Brussels on 26 October that the Complimentary DA would be published before the end of 2021.
- Consequently, while not an absolute certainty, it is highly likely that the Complimentary DA will be published before the end of the year to appease Member States anxious to respond to rising energy prices.
- We can only speculate as to the exact treatment of natural gas & nuclear energy in the Complimentary DA. In our estimation, natural gas & nuclear energy may be treated as transitional activities for a time-limited period.

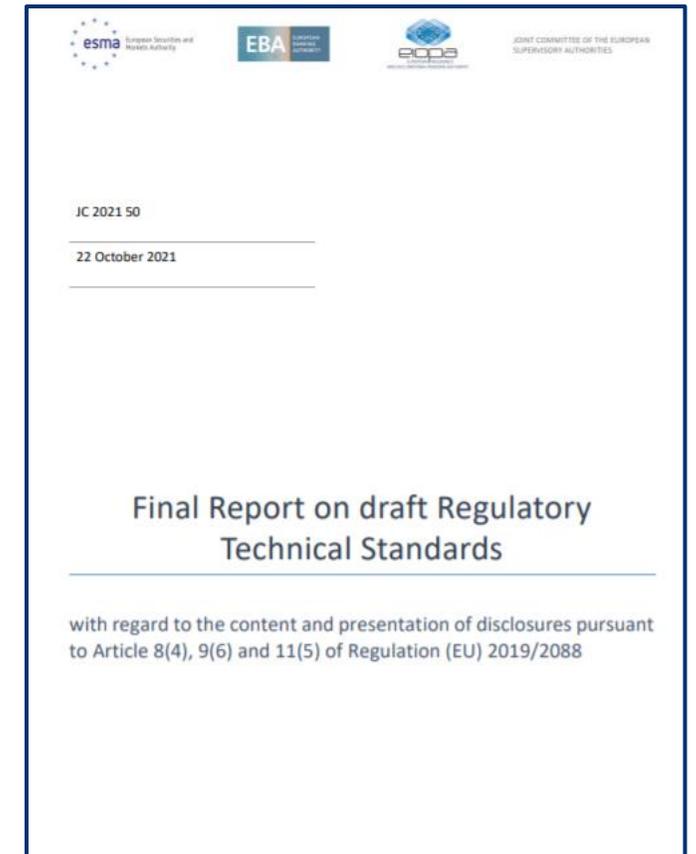


Finalised RTS on Taxonomy-related product disclosures under SFDR

Policy assessment



- On 22 October, the European Supervisory Authorities (ESAs), consisting of ESMA, the EBA and EIOPA, published the finalised [Regulatory Technical Standards](#) (RTS) on Taxonomy-related product disclosures under SFDR.
- The finalised RTS outline specific disclosure requirements for Article 8 and Article 9 products when they include investments associated with **environmentally sustainable economic activities** as defined by the EU Taxonomy – so-called Taxonomy-aligned economic activities.
- The finalised RTS require Financial Market Participants (FMPs) to demonstrate **how and to what extent** the product's investments are Taxonomy-aligned in pre-contractual and periodic disclosures to clients.
- In effect, this means FMPs will have to show what proportion of a product portfolio is associated with Taxonomy-aligned activities and specify which of the Taxonomy's environmental objectives to which those activities contribute.



Finalised RTS on Taxonomy-related product disclosures under SFDR

Policy assessment



MAIN HIGHLIGHTS – CONTENT OF TAXONOMY-RELATED PRODUCT DISCLOSURES

- The Taxonomy-related disclosures require Financial Market Participants (FMPs) to indicate – using the **mandatory disclosure templates** provided by the finalised RTS – whether their Art. 8 or Art. 9 products invest in Taxonomy-aligned activities.
- FMPs must then specify the environmental objectives (stipulated by the Taxonomy) to which the Taxonomy-aligned activities with which their investments are associated contribute.
- In pre-contractual disclosures, FMPs must provide a **graphical representation** of their product's proportion of Taxonomy-aligned investments through the use of two separate **pie charts**.
- In the first of these pie charts - the proportion of Taxonomy-aligned investments will be calculated by dividing the numerator (reflecting the Taxonomy-aligned investments) with **all investments** included in the denominator – **including sovereign exposures**.

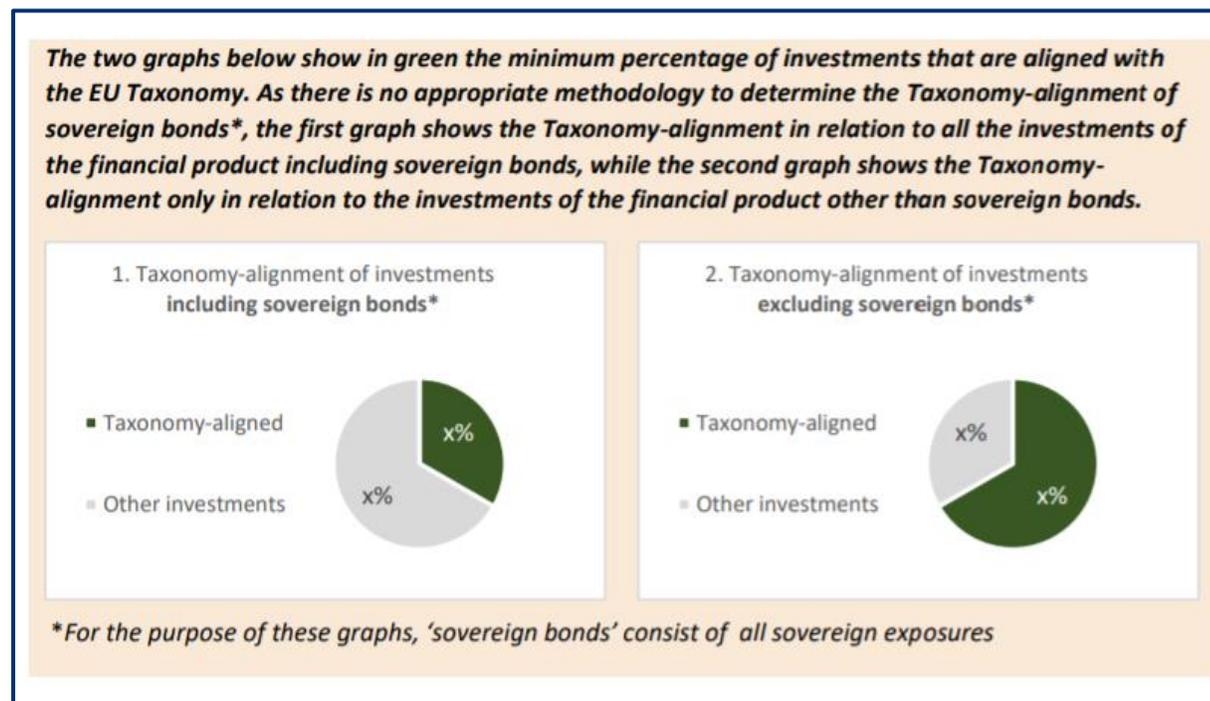
Finalised RTS on Taxonomy-related product disclosures under SFDR

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MAIN HIGHLIGHTS – CONTENT OF TAXONOMY-RELATED PRODUCT DISCLOSURES

- In the second of these pie charts - the proportion of Taxonomy-aligned investments will be calculated by dividing the numerator (reflecting the Taxonomy-aligned investments) with investments included in the denominator – **excluding sovereign exposures**. Please see an example of the two pie charts to be provided below:



Finalised RTS on Taxonomy-related product disclosures under SFDR

Policy assessment



MAIN HIGHLIGHTS – USE OF ESTIMATES

- Significantly, the finalised RTS allow the **use of estimates** when calculating the Taxonomy-alignment of investments. As you are aware, the Article 8 Taxonomy Delegated Act (DA) has deferred the application of disclosure of Taxonomy-alignment for companies subject to the Non-Financial Reporting Directive (NFRD) until 2023 (in the case of non-financial undertakings) and 2024 (in the case of financial undertakings).
- This had the potential to complicate disclosure of Taxonomy-alignment of financial products in accordance with SFDR as information on the Taxonomy-alignment of investee companies would not be available to calculate the Taxonomy-alignment of associated investments.
- In the finalised RTS, the ESAs have addressed this issue by permitting FMPs to use estimates for the calculation of Taxonomy-alignment of investee companies – provided either by the investee companies themselves or by third-party providers – as implied by **Article 16a(2)(b)** of the legal provisions.

Finalised RTS on Taxonomy-related product disclosures under SFDR

Policy assessment



MAIN HIGHLIGHTS – APPLICATION DATES

- The finalised RTS confirm that disclosure of Taxonomy-alignment at product level will be required as of **1 January 2022** insofar as said disclosures relate to the first two environmental objectives of the Taxonomy (climate change mitigation & climate change adaptation) for which technical screening criteria have been provided by the Climate DA (which is anticipated to enter into force on 7 December).
- Disclosure of Taxonomy-alignment at product level insofar as it concerns alignment with the remaining four environmental objectives must be made as of **1 January 2023** – pending the adoption of the Delegated Act outlining the necessary technical screening criteria.
- However, the ESAs also state on **Page 11** that;

“the European Commission has indicated in a recent letter to the European Parliament and Council that all the SFDR RTS will be adopted in one instrument with an expected application date of 1 July 2022. In light of this, the ESAs acknowledge that the date of application of the draft RTS, originally indicated as 1 January 2022, is likely to be moved forward.”

The EU's new banking rules: Update

Basel III final, amending the Capital Requirements Regulation and Capital Requirements Directive

Aim: financial stability and steady financing of the economy in post-COVID 19 crisis recovery

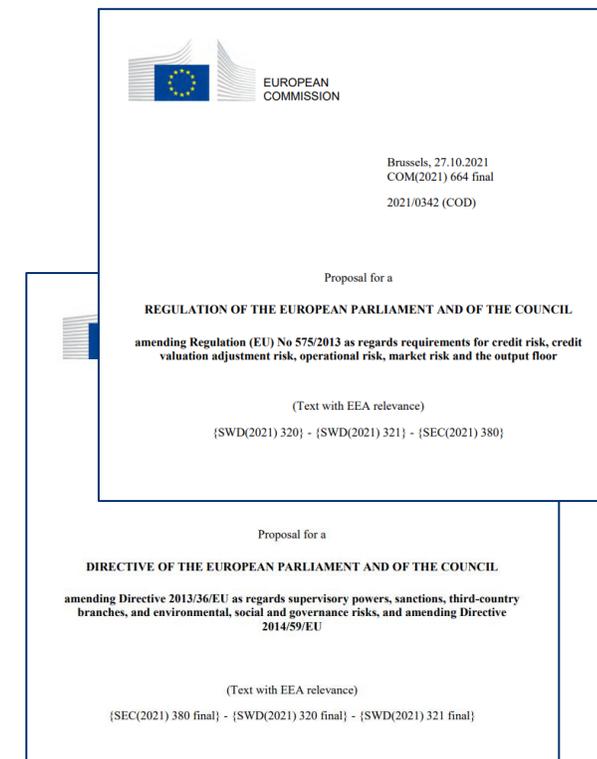
- Implement Basel III agreement and strengthen the risk-based capital framework
- Stronger tools for supervisors overseeing EU banks
- Strengthen the **resilience of the banking sector to ESG risks**

Sustainability proposals:

- Requirement for banks to systematically **identify, disclose and manage ESG risks** as part of their risk management
- Supervisors need to assess ESG risks as part of their regular **supervisory reviews**
- EBA assessing the need for dedicated **prudential treatment** of exposures related to assets or activities associated with environmental or social objectives already in 2023 (instead of 2025)

Next steps:

- Legislative package will now be discussed by the European Parliament and Council
- Applicable as of 2025



Global collaboration on sustainability reporting: the establishment of the International Sustainability Standards Board (ISSB)



The announcement of the IFRS Foundation at the COP26 and the publication of sustainability & climate prototypes

The International Financial Reporting Standards Foundation (IFRS) announced the establishment of an International Sustainability Standards Board (ISSB)

- **Aim** To develop international sustainability reporting standards that will serve as a **global baseline for sustainability disclosure**
- **Who** The Climate Disclosure Standards Board (CDSB - an initiative of CDP) and the Value Reporting Foundation (VLR - which leads the **Integrated Reporting Framework and the SASB Standards**) have agreed to **consolidate** in the ISSB by June 2022
- **Where** Headquarters in **Frankfurt**; other key functions in Montreal; offices in all the continents
- **Topics covered** ESG, **starting with climate**; building on existing frameworks
- **Relation with national jurisdictions** Compatibility envisaged; voluntary basis adoption through national/regional frameworks
- **What's next** Appointment of Char, vice-Chair and 14 members; global **consultation in 2022**

Two prototypes disclosures published:

- **general** sustainability
- **climate-related**, based on the TCFD, including also industry-specific disclosures

Approach towards materiality

Forward-looking **sustainability matters that affect enterprise value creation** over the short, medium and long term



Why it matters for the EU :

- Standards-setting process ongoing → CSR; EFRAG
- The EU sustainability reporting standards would **build on and contribute to standardisation initiatives at global level**. At the same time, the EU process will seek to **deliver on the ambitions of the EU Green Deal**.
- **Double materiality**

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