

EU Sustainable Finance Update

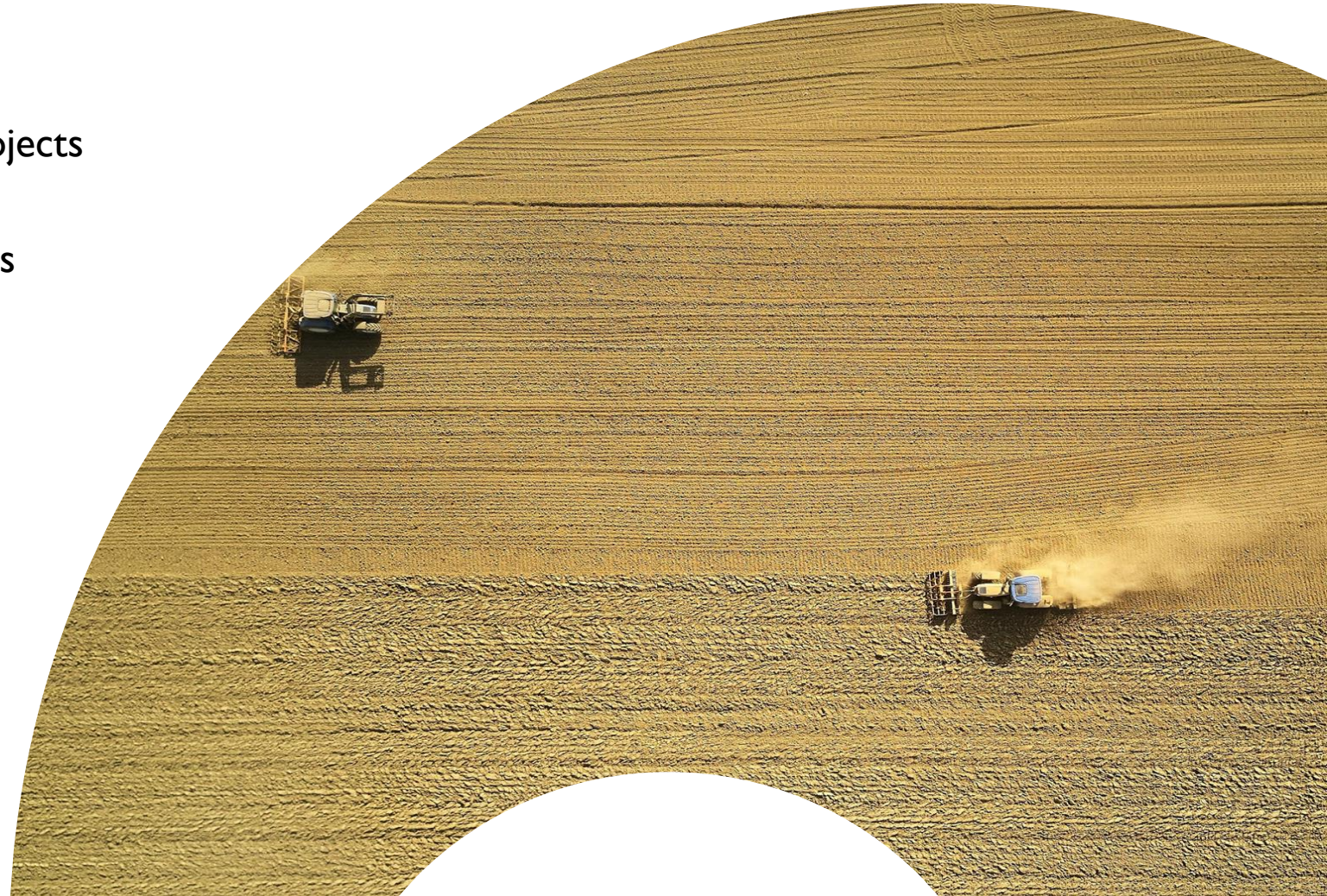
13 January 2022



PROMOTING SUSTAINABILITY THROUGH
EUROPEAN FINANCIAL MARKETS

Agenda, 13 January 2022

- EU Taxonomy – Complementary DA
 - Conditions for nuclear energy projects
 - Conditions for natural gas projects
- CSRD – Update
- EU Green Bonds – Update
- Outlook for 2022



EU Taxonomy – State-of-Play

Update on Complimentary Delegated Act

- On Friday, 31 December 2021, the EU Commission sent a **draft Complementary Delegated Act (DA)** to the Platform and to the Member States Expert Group on Sustainable Finance
- The Complementary DA details the **technical screening criteria** for qualifying natural gas and nuclear energy as sustainable in the framework of the EU Taxonomy

Key takeaways:

- The Comp. DA qualifies both natural gas and nuclear energy as **transitional activities provided certain conditions are satisfied**;
- The Comp. DA also includes **amendments to the Taxonomy Disclosures Delegated Act** (adopted pursuant to Article 8 of the Taxonomy Regulation) to ensure that Taxonomy-related disclosures by companies clearly reflect exposures to natural gas & nuclear energy activities and/or investments.
- The European Commission also envisages **amendments to the Taxonomy-related product disclosures under SFDR** so as to ensure that, where present, exposures to Taxonomy-compliant natural gas & nuclear energy activities are clearly reflected as part of the Green Asset Ratio (GAR) of Art. 5 & Art. 6 investment products.



Conditions attached to Nuclear Energy projects

The construction & operation of nuclear power plants will qualify as a transitional activity in cases where;

- The construction permit for a new nuclear installation has been issued **by 2045**;
- In the case of modifying or renovating existing nuclear installations so as to extend their service life, such activities will qualify as transitional **until 2040**.
- The Member State in which the project is undertaken must have in place, as of the approval date of the project, an adequate radioactive waste management fund & nuclear decommissioning fund.
- The Member State in which the project is undertaken must also have **operational final disposal facilities** for all low & intermediate level radioactive waste.
- For all projects authorised **after 2025**, there must also be a **detailed plan** in place outlining how the Member States will ensure the effective operation **by 2050** of **disposal facilities for high-level radioactive waste**.
- Nuclear energy projects must be notified to the European Commission under the terms of the Euratom Treaty. The Commission will issue an Opinion as to whether the conditions above have been satisfied.



Conditions attached to natural gas projects

Electricity generation using natural gas will qualify as a transitional activity if it satisfies either of the following criteria;

- The project/facility has life-cycle GHG emissions from electricity generation lower than 100g CO₂e/kWh – verified by an independent third party and taking account of abatement & carbon capture efforts

Alternatively;

For facilities for which the construction permit is granted **by 31 December 2030**;

- i. Direct GHG emissions of the activity are lower than 270g CO₂e/kWh of the output energy, or annual GHG emissions of the activity do not exceed an average of 550KG CO₂e/kW of the output energy of the facility's capacity over 20 years, and;
- ii. The power generated cannot yet be **efficiently replaced by power generated from renewable energy sources**;
- iii. The **facility replaces an existing high emitting electricity generation facility** that uses solid or liquid fossil fuels, and;
- iv. The production capacity of the facility does not exceed the capacity of the replaced facility **by more than 15%**, and;
- v. The facility demonstrates compatibility with co-firing of low carbon gaseous fuels with a commitment to use at least 30% renewable or low-carbon fuels as of 1 January 2026, increasing to at least 55% of renewable/low-carbon fuels as of 1 January 2030, and to switch to renewable/low-carbon gases by 31 December 2035, and;
- vi. Provided the project is located in a Member State that has committed to phase-out coal.

EU Taxonomy – State-of-Play

Update on Complimentary Delegated Act



Next steps:

- The Platform and the Member States Expert Group on Sustainable Finance are able to **provide feedback** to the Commission until **21 January 2022**.
- The Commission will consider the feedback and is expected to **formally adopt** the Complementary DA by the end of January.
- After adoption, the EU Parliament and the Council will have four months to **scrutinise** the DA. The Council and/or European Parliament can block the DA provided they can marshal a large enough majority in favour of a formal objection. This is unlikely to be the case.
- Once the scrutiny period is over and assuming neither Parliament nor Council object, the Complementary DA will **enter into force**.



A **Qualified Majority** in the Council is required to block the Comp. DA. This would require 15 Member States (out of 27) representing 65% of the EU population to vote in favour of an objection.

In the European Parliament, **353 MEPs** would have to vote in favour of an objection to the Comp. DA. At present, there is no majority willing to do so.

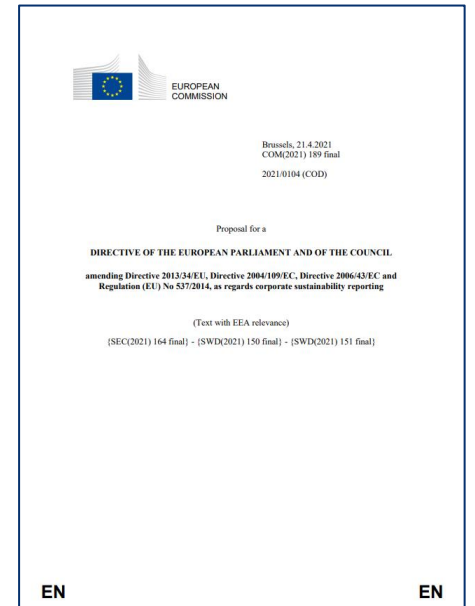


CSRD – Update (1/2)

The Corporate Sustainability Reporting Directive aims to strengthen sustainability reporting

RECAP: The Corporate Sustainability Reporting Directive

- Commission published CSRD proposal on 21 April 2021
- CSRD aims to revise and strengthen existing rules under **Non-Financial Reporting Directive (NFRD)**
- Reporting requirements are **extended in scope** to all large companies and all listed companies
- **Audit / assurance** of reported information is required
- **EFRAG** has been mandated to develop European **sustainability reporting standards**
- Reporting requirements are detailed and base on **double materiality approach**: need to report on how sustainability issues affects business as well as how activities impact people and the environment



CSRD – Update (2/2)

Amendments have been scheduled - the file is expected to gain traction in Q1

Work status in the European Parliament:



- Responsible committee: **Committee on Legal Affairs** (JURI)
- Rapporteur: MEP **Pascal Durand** (Renew, FR)
- Associated committees: ECON, ENVI, and EMPL
- By 14 December 2021, over 600 **amendments** tabled in JURI

 Vote in Plenary expected on **22 March 2022**

Work status in the Council:



- Responsible group: Working party on company law
- On 24 November 2021, a **first compromise text** was leaked, but discussions will continue

 Council is said to try reaching a **consensus by February**

Key discussion items:

- | | |
|--|--|
| ▪ Deadline for transposition and start of reporting requirements | ▪ EFRAG’s work and governance |
| ▪ Scope (SMEs, subsidiaries, non-EU companies) | ▪ Requirements for independent assurance |

European Green Bond Standard – Update (1/2)

July 2021: The EU Commission proposed a **draft regulation**

Key aspects of the proposal:

- Set of common criteria for EU and non-EU issuers of green bonds willing to label those bonds as “EU Green Bonds”
- **Full Taxonomy-alignment** of the use of proceeds
- Pre-issuance factsheet and allocation reports subject to external review by **qualified and independent reviewers**
- External reviewers registered and supervised by the European Securities and Markets Authority (**ESMA**)

Work status in the EU Parliament:



- Committees working on the file: ECON (leading), ENVI, BUDG
- Reports with amendments to the EC proposal, currently under discussion

 Vote in plenary expected in **May 2022**

Work status in the EU Council



- Responsible group: Working Party on Financial Services and the Banking Union (Sustainable Finance)
- Main issues: **treatment of sovereign bonds** (flexibility of Taxonomy-alignment of the use of proceeds and rules for external reviewers)

 Positions of MS discussed in November and December

European Green Bond Standard – Update (2/2)

On the 30th of November 2021 in the ECON the rapporteur Paul Tang published a report with amendments to the EU Commission proposal.



Key points in the report:

- **Further requirements for issuers:** 1) demonstrate the adoption of transition plans to reach net-zero by 2050; 2) factor in principle adverse impacts of their investments on sustainability factors, including social factors; 3) rules against tax avoidance
- **Exclusion of projects in natural gas and nuclear energy** for the use of proceeds
- **Introduction of a standardised format of disclosure for all sustainable bonds** in the EU market (not only for green bonds); such standard should be subject to the same external review process as set for the EU GBS
- Strengthened rules to ensure **independency of reviewers**
- **EU GBS mandatory for all EU bodies and institutions** that issue sustainable debt with green objectives
- **Establishment of a mandatory regime** between 2025 and 2028 (deadline and practicalities must be detailed in the EU Commission review report, due by Dec 2023)

TOPICS under discussion in the Parliament

- Voluntary/mandatory nature of the EU GBS (gradual phase-in of mandatory label supported by the ECB; rejected by ICMA and AFME)
- Treatment of gas and nuclear power projects
- Opportunity/not of establishing a disclosure framework for all sustainable bonds
- Rules regarding Taxonomy-alignment of the use of proceeds when TSC evolve
- Accessibility for SMEs

What's next in the EU Parliament?

In the ECON committee

- 20 January 2022: deadline for amendments
- 28 February 2022: Consideration of amendments
- 31st March 2022: Final vote

Plenary vote expected in May 2022

Outlook 2022: What's on the Sustainable Finance agenda?

■ **EU Taxonomy:**

- Adoption of Complimentary DA incl. natural gas & nuclear energy
- Publication & adoption of DA specifying technical screening criteria for remaining 4 environmental objectives;
- Platform on Sustainable Finance expected to publish its report on Social Taxonomy & Extended environmental Taxonomy framework in Q1 2022

■ **SFDR:**

- The Commission will initiate a review of the Principal Adverse Impact (PAI) indicators with a request for technical advice to the ESAs in February/March 2022.
- The Commission will also initiate work on minimum sustainability criteria for Art. 8 products.

■ **MiFID II:**

- ESMA expected to initiate public consultation on suitability assessment by end of January 2022.
- Possible deferral of application of MiFID II requirements re. client sustainability preferences from August 2022 to January 2023.

■ **CSRD:**

- Council & Parliament to adopt their respective positions & commence negotiations in H2 2022.

Outlook 2022: What's on the Sustainable Finance agenda?

- **European Green Bond Standard:**

- ECON committee expected to reach position by April 2022

- **EU ESG Benchmarks:**

- Commission's formal proposal for EU ESG Benchmark label expected by end of 2022; PwC expected to report on impact and feasibility of an ESG benchmark; review of minimum standards for Climate Transition and Paris-Aligned Benchmarks expected

- **ESG Ratings:**

- European Commission Call for Evidence on use of ESG Ratings by Financial Market Participants



Outlook 2022: What else is on the EU's agenda?

- **Carbon Border Adjustment Mechanism (CBAM):** expecting speeding-up of process in Q1 and Q2 2022
- **Fit-for-55 package:** planned to become law in 2022; continuing discussions on extension of Emission Trading System (ETS) to road transport; further legislation (e.g. review of CO2 emission standards for heavy-duty vehicles, framework to harmonise measurement of transport and logistics emissions) and discussions on sustainable aviation fuel and liquid natural gas expected
- **COP27 Climate Summit:** November 2022, Egypt



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