



# EU COMMISSION ACTION PLAN ON SUSTAINABLE FINANCE

October 2020





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# 1. BACKGROUND

EU'S AMBITIOUS COMMITMENTS TOWARDS SUSTAINABILITY

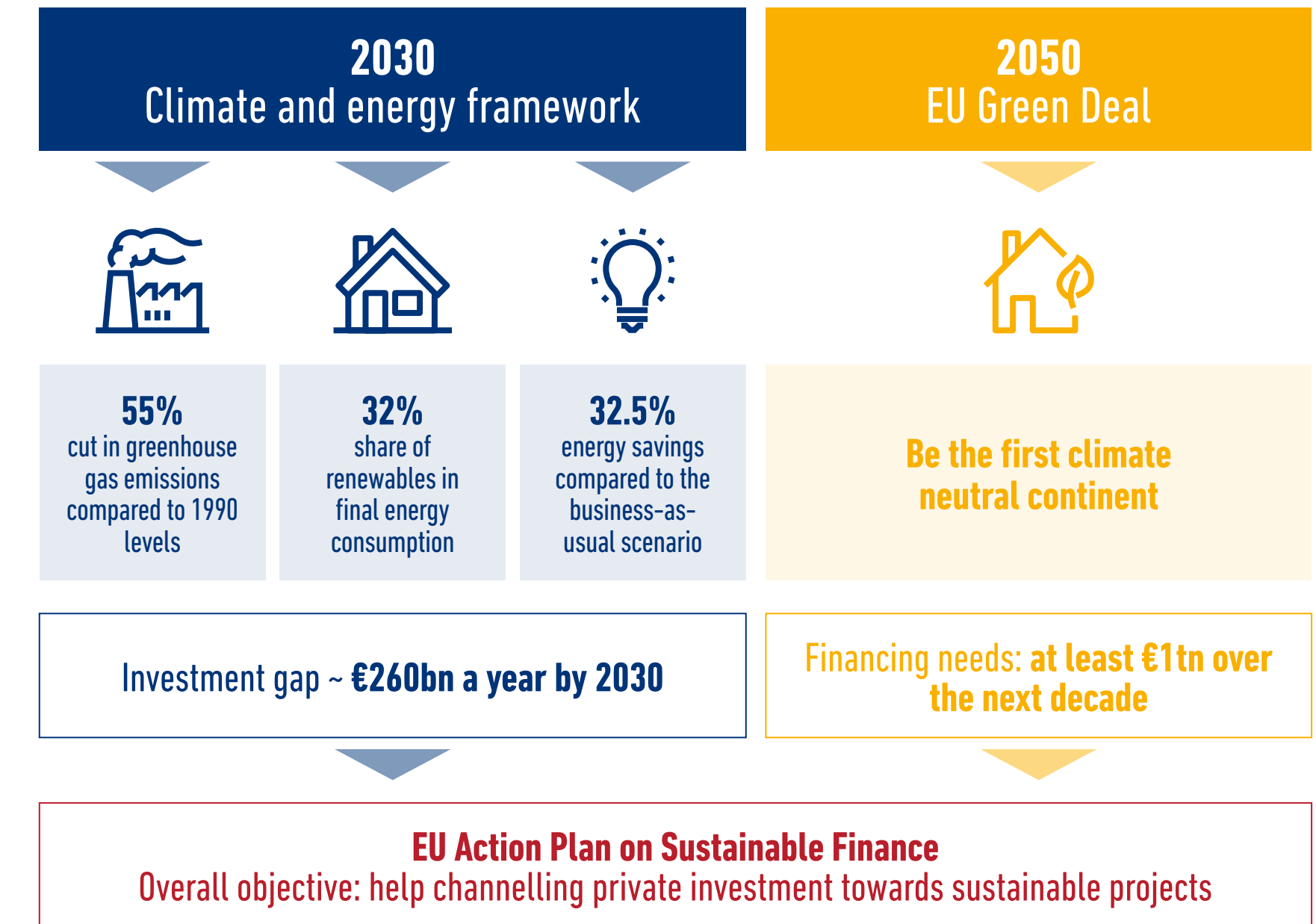
SUSTAINABLE FINANCE IN THE CONTEXT OF GREEN DEAL AND COVID-19

## EU'S AMBITIOUS COMMITMENTS TOWARDS SUSTAINABILITY

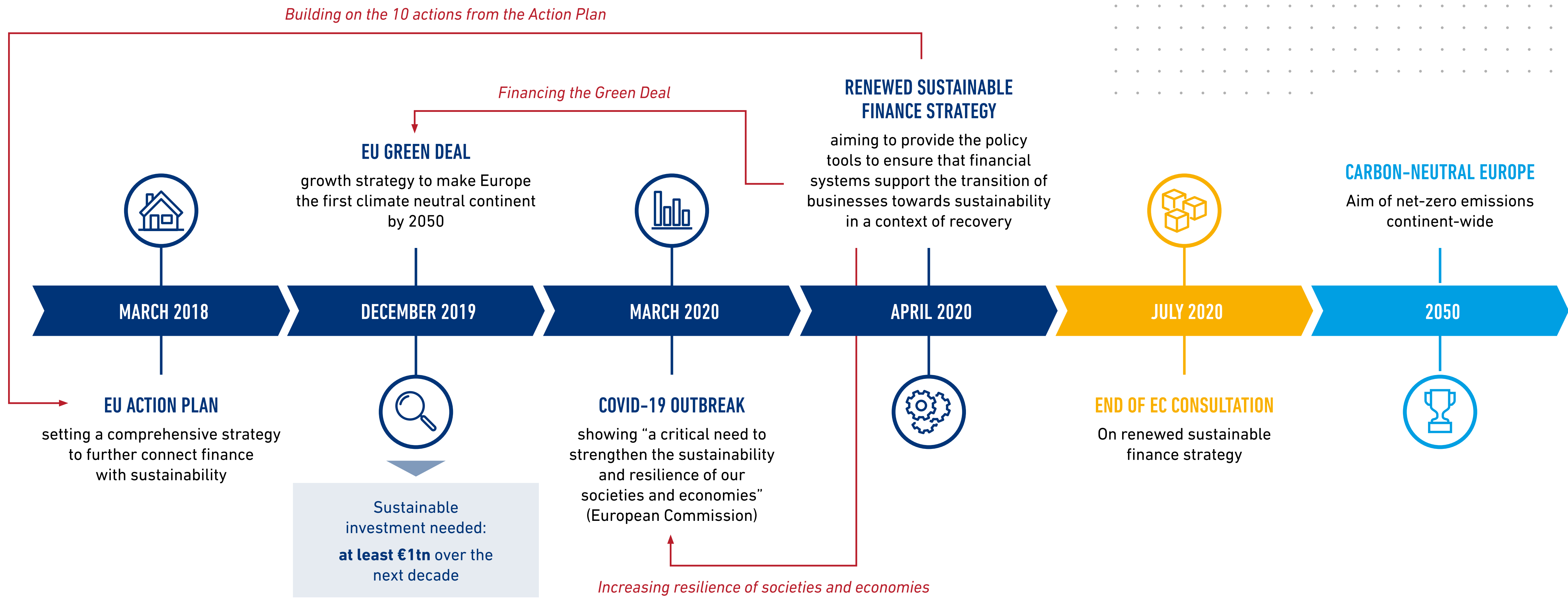
### EU SUSTAINABLE FINANCE OBJECTIVES



### LONG-TERM TARGETS



**SUSTAINABLE FINANCE IN THE CONTEXT OF GREEN DEAL AND COVID-19**







# 2. THE EU ACTION PLAN / AGENDA

WHAT IS THE EU ACTION PLAN?

LEGISLATIVE PROPOSALS

TIMELINE

## WHAT IS THE EU ACTION PLAN?

### Ten reforms in three areas



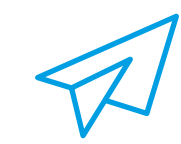
#### REORIENTING CAPITAL FLOWS TOWARDS SUSTAINABLE INVESTMENT:

- Establishing an EU classification system for sustainability activities
- Creating standards and labels for green financial products
- Fostering investment in sustainable projects
- Incorporating sustainability when providing investment advice
- Developing sustainability benchmarks



#### MAINSTREAMING SUSTAINABILITY INTO RISK MANAGEMENT:

- Better integrating sustainability in ratings and research
- Clarifying institutional investors and asset managers' duties
- Incorporating sustainability in prudential requirements



#### FOSTERING TRANSPARENCY AND LONG-TERMISM IN FINANCIAL AND ECONOMIC ACTIVITY:

- Strengthening sustainability disclosure and accounting rule-making
- Fostering sustainable corporate governance and attenuating short-termism in capital markets

### Legislative proposals

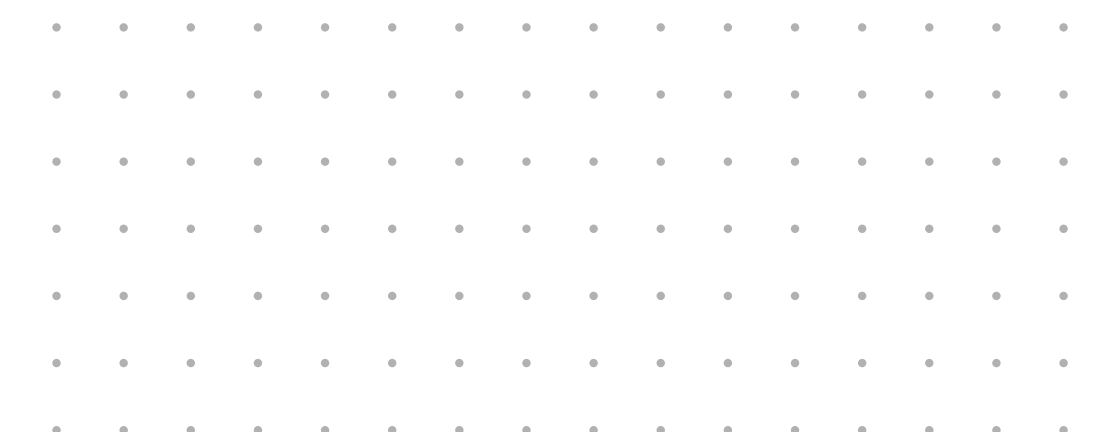
The Commission adopted in May 2018 a package of measures implementing several key actions announced in the Action Plan :

- A proposal for an EU taxonomy regulation
- A regulation on sustainability disclosures
- A regulation on developing low-carbon benchmarks
- The Commission is also looking to encourage the adoption of the EU Green Bond Standard. A dedicated consultation is running since 12 June 2020 until 2 October 2020 with regards to a legislative initiative.

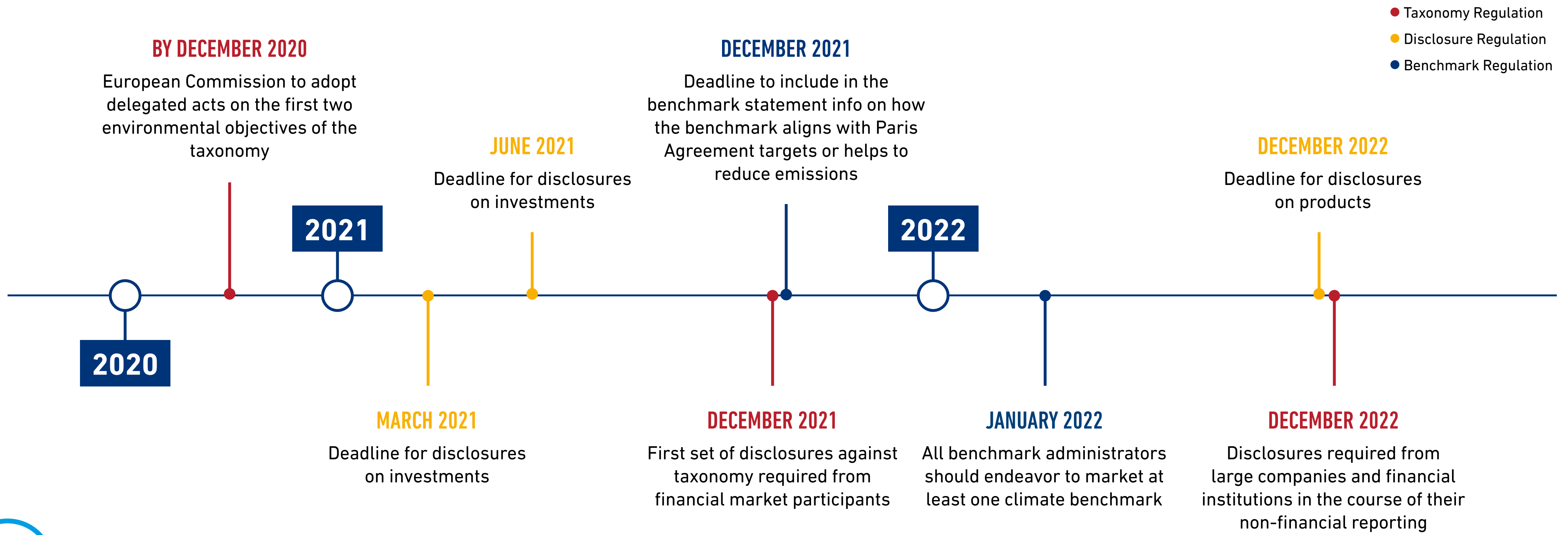
### REPORTS OF THE TECHNICAL EXPERT GROUP (TEG)

The Technical Expert Group on sustainable finance, set up in July 2018, has produced the following reports to help the Commission building regulations:

- EU Taxonomy Technical Report (June 2019) and Final Report on the EU Taxonomy (March 2020)
- Report on EU Green Bond Standard (June 2019) and Usability Guide (March 2020)
- Interim Report (June 2019) and Final Report on climate benchmarks and benchmarks' ESG disclosures (September 2019)
- Report on climate-related disclosures (January 2019)



## LEGISLATIVE PROPOSALS TIMELINE



### OVERALL KEY NEXT STEPS FOR FINANCIAL INSTITUTIONS

- To **develop an understanding** of the requirements introduced by these regulations
- To **consider alignment of current practices** with the requirements of these soon-to-be implemented regulations
- To **set up an implementation programme** to prepare for these requirements, including a governance framework and detailed implementation phases



# 3. FOCUSES AND IMPACTS

SUSTAINABLE FINANCE DISCLOSURE REGULATION

TAXONOMY REGULATION

LOW-CARBON BENCHMARK REGULATION

GREEN BOND STANDARD

## EU SUSTAINABLE FINANCE DISCLOSURE REGULATION ('SFDR')

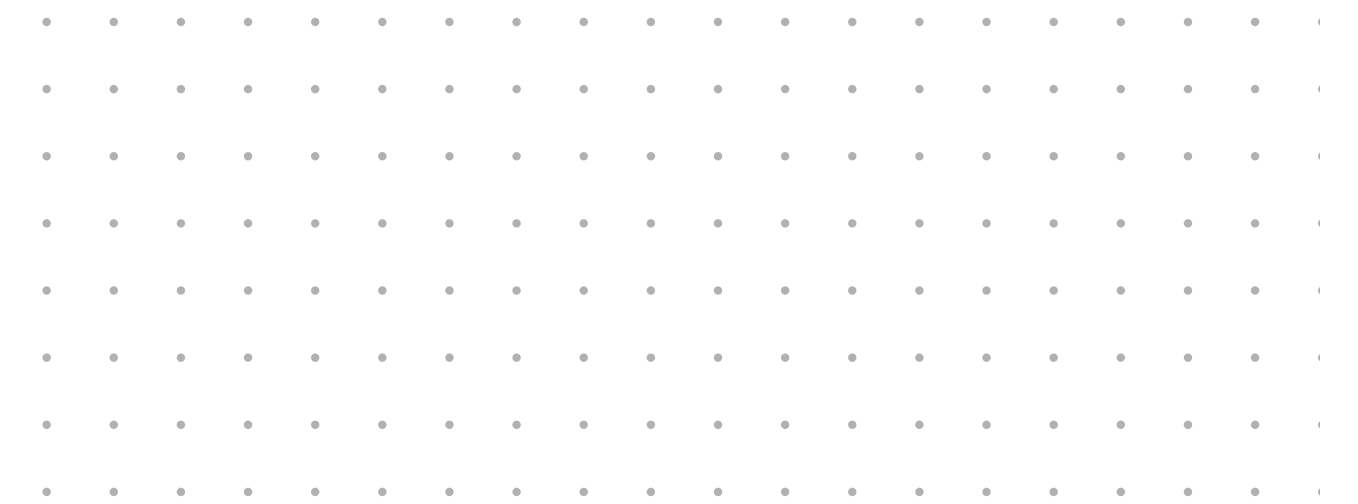


The EU Sustainable Finance Disclosure Regulation will complement the Non-Financial Reporting Directive (NFRD) by introducing requirements focused on investments and financial products for asset managers and institutional investors.

### Content of the regulation

The SFDR introduces a range of new definitions (sustainable investments, sustainability risks and factors) and creates **transparency requirements to ensure a greater products comparability across the EU for end-investors**. These requirements regard:

- **Investments:**
  - policies on the integration of sustainability risks in investment decisions and advice
  - sustainability-related due diligence policies, or explain why they are not in place
  - how adverse sustainability impacts are identified, prioritised and mitigated
  - if and how remuneration policies address sustainability risks
- **Financial products offered:**
  - if and how a financial product considers adverse sustainability impacts
  - where detailed information on these impacts can be found
- **Financial products that promote environmental or social (E&S) characteristics:**
  - information on how these characteristics are met, in line with the draft regulatory technical standards ('RTS') published by ESAs in April 2020
  - the nature and extent to which the product aligns with the EU taxonomy
- **Financial products with sustainable investment objective and where an index has been designated as a reference benchmark:**
  - same disclosures as for financial products that promote E&S characteristics
  - information on how the designated index is aligned with this objective
  - why and how the designated index differs from a broad market index







### KEY TAKEAWAYS

- **The Regulation will complement the NFRD**, which requires disclosure on ESG risk management at firm-level, with specific disclosure requirements for products and investments offer standardised templates such as for Principal adverse impacts
- **Regarding products:** details on the sustainability impact of the product and how this has been measured to be disclosed in annual report and pre-contractual disclosures
- **Regarding investments:** details on due diligence, impact mitigation and remuneration to be disclosed on firm's website



### KEY UPCOMING DATES

- **December 2020** – ESAs to publish finalised RTS on metrics, format and content of required disclosures
- **10 March 2021** – EU Disclosure Regulation officially applies
- **30 June 2021** – Deadline for disclosures on investments
- **30 December 2022** – Deadline for disclosures on products

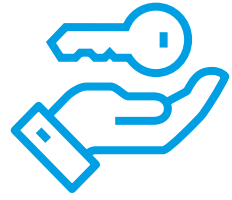


### NEXT STEPS FOR FIRMS IN SCOPE (SEE LIST IN ANNEX)

- To map current firm's situation in regards to regulation requirements: current performance and alignment of the portfolio, current disclosure
- To establish a detailed 2-year action plan identifying targets to close gaps



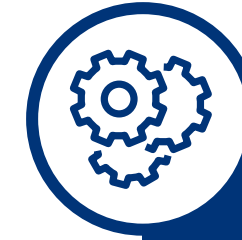
## EU TAXONOMY REGULATION



The Taxonomy is an EU-wide classification system providing businesses and investors with a common language to identify whether an economic activity is environmentally sustainable.

### Content of the regulation

- The Taxonomy Regulation ('TR') **sets performance thresholds for environmental sustainability** (referred to as 'technical screening criteria') for economic activities which:
  - Make a "substantial contribution" to one of the 6 defined environmental objectives:
    1. climate change mitigation;
    2. climate change adaptation;
    3. sustainable use and protection of water and marine resources;
    4. transition to a circular economy;
    5. pollution prevention and control; and
    6. protection and restoration of biodiversity and ecosystems;
  - do "no significant harm" to any of those 6 environmental objectives;
  - meet minimum "social safeguards" (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).
- The TR introduces **new disclosure requirements** for:
  - *Companies and financial institutions ('FI')* already required to provide a non- financial statement under the Non-Financial Reporting Directive: describe how, and to what extent, their activities are associated with Taxonomy-aligned activities.
  - *Financial market participants offering financial products in the EU:* for each relevant product, state how and to what extent they have used the Taxonomy in determining the sustainability of the underlying investments; to what environmental objective(s) the investments contribute; and the proportion of underlying investments that are Taxonomy-aligned, expressed as a percentage of the investment, fund or portfolio.



### KEY TAKEAWAYS

#### New disclosure requirements on taxonomy-alignment of:

- **Activities:** once a year in non-financial reporting for companies and FI in the scope of the NFRD
- **Financial products:** in pre-contractual and periodic disclosures for financial market participants (in addition to requirements from the Sustainable Finance Disclosure Regulation)



### KEY UPCOMING DATES

- **By end of 2020** – European Commission's delegated acts setting technical criteria for climate change mitigation and adaptation
- **By end of 2021** – delegated acts for the four other objectives and first set of disclosures against taxonomy required from financial market participants in pre-contractual documentation and periodic reporting
- **In the course of 2022** – disclosures required from companies and FI in the course of their non-financial reporting



### NEXT STEPS FOR FIRMS IN SCOPE (SEE LIST IN ANNEX)

- To map current firm's situation in regards to regulation requirements: current performance and alignment of the portfolio, current disclosure
- To establish a detailed 2-year action plan identifying targets to close gaps



## EU LOW-CARBON BENCHMARK REGULATION



The Low-Carbon Benchmark Regulation is intended to provide investors with a user friendly tool for comparative analysis of low-carbon benchmark methodologies. It amends the Benchmark Regulation to create two EU climate benchmarks and require all benchmark administrators to provide ESG disclosures.

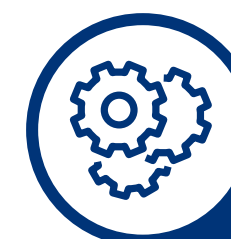
### Content of the regulation

A **climate benchmark** is defined as an **investment benchmark** that incorporates **specific objectives related to greenhouse gas (GHG) emission reductions** and **the transition to a low-carbon economy** through **the selection and weighting of underlying constituents**.

- The amended regulation **introduces two categories of indices for fixed income and equities:**
  - EU Climate **Transition** Benchmark (**EU CTB**) – suitable for institutional investors whose objective is to **protect assets against investment risks** related to climate change and the transition to a low-carbon economy
  - EU **Paris-Aligned** Benchmark (**EU PAB**) – designed for institutional investors that want to be at the forefront of the immediate transition towards a +1.5°C scenario.
- To claim the **low-carbon nature of a benchmark, a benchmark administrator will have to demonstrate** that it qualifies either as a **EU CTB** or a **EU PAB** in compliance with **6 criteria:**
  - Carbon reduction compared to the investable universe
  - Scope 3 phase-in
  - Baseline exclusion/Activity exclusions
  - Minimum green share/brown share ratio compared to investable universe
  - Exposure constraints
  - Self-decarbonisation

For **other significant bond and equity benchmarks**, benchmark administrators must publish detailed information on overall degree of **alignment of reducing carbon emissions** and with **the warming targets of the Paris Agreement**.

\* Delayed. On 29 April 2020, ESMA issued a No Action Letter to National Competent Authorities (NCAs), providing ESMA's opinion that NCAs should not prioritise supervisory or enforcement action against administrators regarding these new requirements until the Delegated Acts apply. The European Commission adopted Delegated Acts on 17 July 2020. They will be applicable 20 days after their publication to the Official Journal of the EU.



### KEY TAKEAWAYS

- The amending regulation introduces in the EU Benchmark Regulation **two new types of climate benchmarks**, with which **climate and low-carbon benchmark administrators** will need to **demonstrate alignment**, and create **ESG disclosure requirements for all benchmark administrators**
- The goal is to increase transparency on investors' alignment with the needs of ambitious climate scenarios, and to tackle greenwashing



### KEY UPCOMING DATES

- **30 April 2020\*** – provision by benchmark administrators of how ESG factors are reflected in their methodology documents and benchmark statements
- **31 December 2021** – disclosure of how their methodology aligns with the target of carbon emission reduction or attains the long-term targets of the Paris Climate Agreement
- **By 1 January 2022** - All benchmark administrators should also "endeavour" to market one or more climate benchmarks

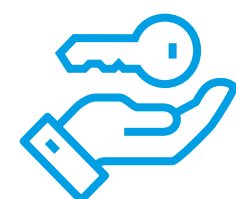


### NEXT STEPS FOR FIRMS IN SCOPE (SEE LIST IN ANNEX)

- Investors planning on using CTBs or PABs will need to understand the disclosures introduced by these Low Carbon Benchmarks
- Administrators that market climate benchmarks will have to evaluate current alignment with the 2 EU benchmarks



## EU GREEN BOND STANDARD



The EU Green Bond Standard (EU – GBS), as proposed by the TEG, is a voluntary scheme for issuers of bonds or other capital market debt instruments. It is currently subject to a public consultation from the European Commission.

### Content of the standard

- Proceeds must be used to finance **'Green Projects'** aligning with Taxonomy requirements:
  - contribute substantially to at least one of the six environmental objectives in the EU Taxonomy Regulation
  - do no significant harm (DNSH) to any of the environmental objectives
  - meet minimum social safeguards as outlined in the Taxonomy
  - align with the relevant "Technical Screening Criteria" of the Taxonomy
- **Annual Allocation Report** must contain the following:
  - statement of alignment with the EU-GBS
  - amount allocated to Green Project(s)
  - geographic distribution of Green Project(s)
- **Impact Report** must contain the following information on Green Project(s):
  - description and Environmental Objectives
  - breakdown by what is being financed (assets, CAPEX, OPEX, etc.)
  - environmental impact, using metrics and / or qualitative information from the Technical Screening Criteria of the Taxonomy

The Impact report will be published once after the full allocation of proceeds, once during the bond lifetime and in the event of any material changes to allocation.



### KEY TAKEAWAYS

- The EU-GBS certification relies on alignment with the Taxonomy (use of proceeds, DNSH, Technical Screening Criteria, etc.)
- A verification by an accredited third party is required
  - Pre-issuance to verify alignment of objectives
  - After full allocation of proceeds to verify the Allocation Report
- It is a voluntary standard but alignment will be a strong signal to investors, regulators and civil society



### KEY UPCOMING DATES

- **October 2020** – End of European Commission consultation on EU-GBS
- **Q4 2020** – Finalisation of the EU-GBS



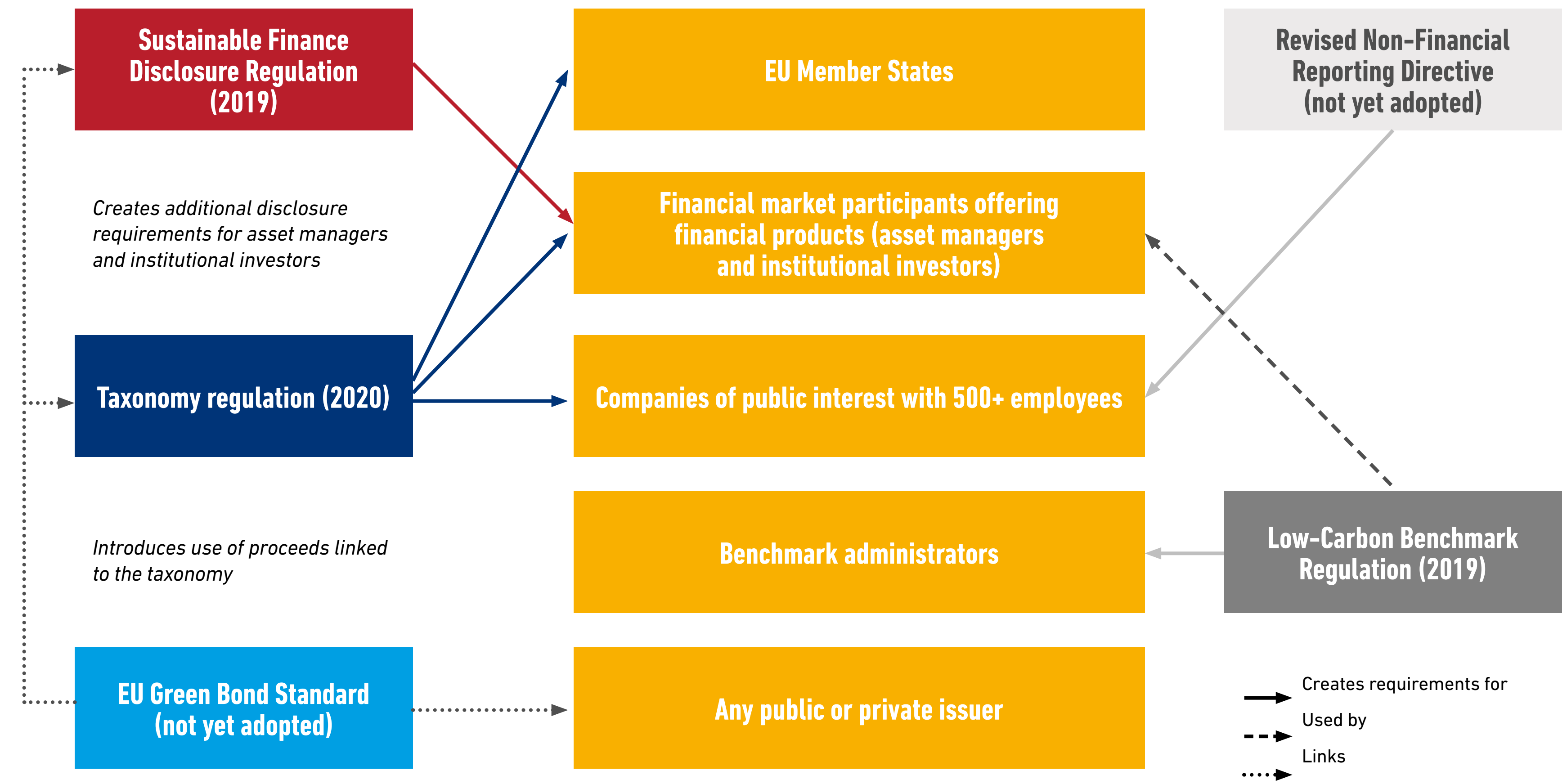
### NEXT STEPS FOR ISSUERS

- To assess planned projects to be financed against EU-GBS requirements, in order to identify potential alignment
- To select an accredited third-party verifier prior to issuance



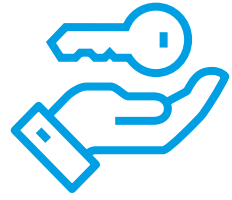
# 4. ANNEX

## OVERVIEW OF REGULATIONS AND ACTORS CONCERNED





## EU DISCLOSURE REGULATION – TO WHOM DOES IT APPLY?



The Regulation applies to “financial market participants” offering “financial products” and “financial advisers” as defined below

### Mandatory users



**“FINANCIAL MARKET PARTICIPANTS” WHO OFFER “FINANCIAL PRODUCTS” AND “FINANCIAL ADVISERS”**

#### Financial market participants

- an ‘insurance-based investment product’ provider;
- an investment firm which provides portfolio management;
- an institution for occupational retirement provision (IORP);
- a manufacturer of a pension product;
- an alternative investment fund manager (AIFM);
- a PEPP provider;
- a manager of a qualifying venture capital fund
- a manager of a qualifying social entrepreneurship fund;
- a UCITS management company; or
- a credit institution which provides portfolio management.

#### Financial products

- a portfolio managed in accordance with Article 4(1) of Directive 2014/65/EU (MiFID II);
- an alternative investment fund (AIF);
- an Insurance-based Investment Product;
- a pension product;
- a pension scheme;
- a UCITS fund; or
- a Pan-European Personal Pension Product.

#### Financial advisers

- an insurance intermediary which provides insurance advice with regard to IBIPs;
- an insurance undertaking which provides insurance advice with regard to IBIPs;
- a credit institution which provides investment advice;
- an investment firm which provides investment advice;
- an AIFM which provides investment advice in accordance with point (b)(i) of Article 6(4) of Directive 2011/61/EU; or
- a UCITS management company which provides investment advice in accordance with point (b)(i) of Article 6(3) of Directive 2009/65/EC;

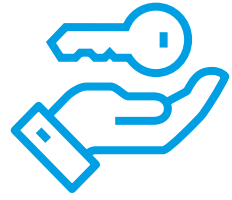


### EXEMPTIONS

- The Regulation will not apply to:
  - insurance intermediaries which provide insurance advice
  - Investment firms which provide investment advice
  - ... provided that these firms employ under three people
- Requirements on the disclosure of due diligence policies apply only to firms with over 500 employees



## EU TAXONOMY REGULATION – TO WHOM DOES IT APPLY?



The Regulation applies to “financial market participants” offering “financial products”, NFRD companies and EU member states

### Mandatory users



#### “FINANCIAL MARKET PARTICIPANTS” WHO OFFER “FINANCIAL PRODUCTS” ACCORDING TO THE DISCLOSURE REGULATION

##### Financial market participants

- an IBIP provider;
- an investment firm which provides portfolio management;
- an institution for occupational retirement provision (IORP);
- a manufacturer of a pension product;
- an alternative investment fund manager (AIFM);
- a PEPP provider;
- a manager of a qualifying venture capital fund
- a manager of a qualifying social entrepreneurship fund;
- a UCITS management company; or
- a credit institution which provides portfolio management.

##### Financial products

- a portfolio managed in accordance with Article 4(1) of Directive 2014/65/EU (MiFID II);
- an alternative investment fund (AIF);
- an Insurance-based Investment Product;
- a pension product;
- a pension scheme;
- a UCITS fund; or
- a Pan-European Personal Pension Product.



### EXEMPTIONS

- For financial products that are not marketed as environmentally sustainable, the financial market participant will simply need to disclose this via disclaimer.



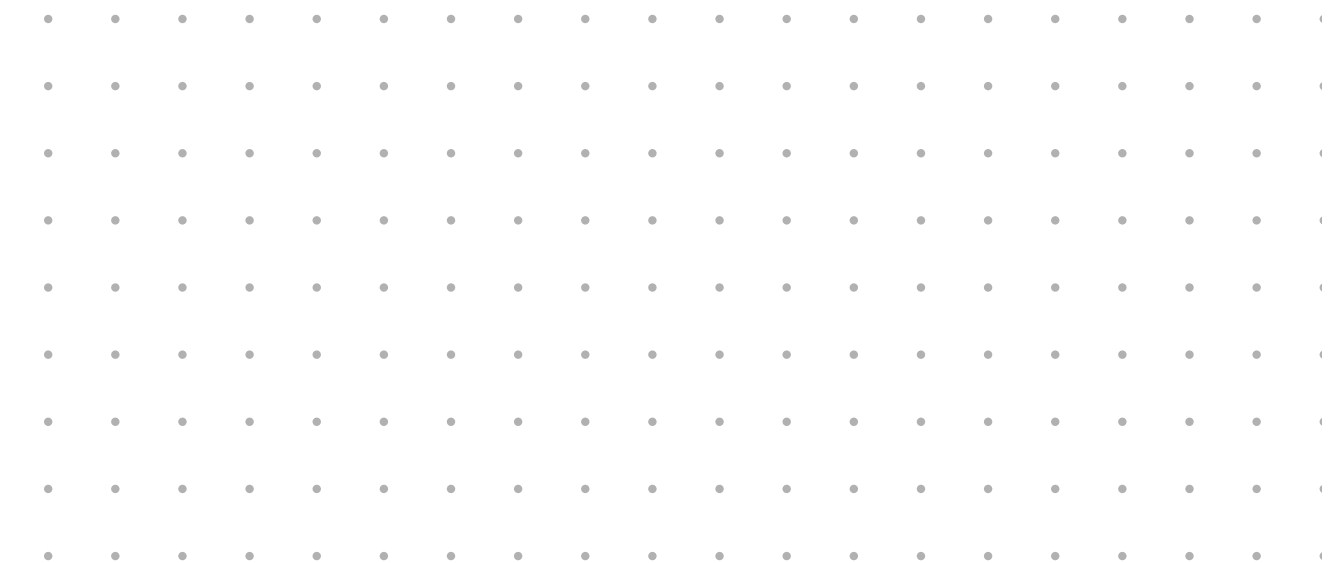
#### FINANCIAL AND NON-FINANCIAL COMPANIES FALLING UNDER THE SCOPE OF THE NON-FINANCIAL REPORTING DIRECTIVE

Large public-interest companies with more than 500 employees, covering approximately 6,000 large companies and groups across the EU, including:

- listed companies
- banks
- insurance companies
- other companies designated by national authorities as public-interest entities



#### INDIVIDUAL MEMBER STATES AND THE EU WITH REGARD TO EXISTING OR POTENTIALLY NEW ECO-LABELLING OR OTHER LEGISLATIVE MEASURES





## EU BENCHMARK REGULATION – TO WHOM DOES IT APPLY?



The Regulation applies to all benchmark administrators

### Mandatory users

#### BENCHMARK ADMINISTRATORS

- All benchmark administrators are required to explain clearly how ESG criteria are reflected for each benchmark or family of benchmarks
- Benchmark administrators that do not produce ESG benchmarks are required to disclose that fact.



#### EXEMPTIONS

The Regulation will not apply to:

- interest rate and currency benchmarks
- benchmarks structured on derivative instruments for the transfer of credit risk that refer to price developments of complex structured products

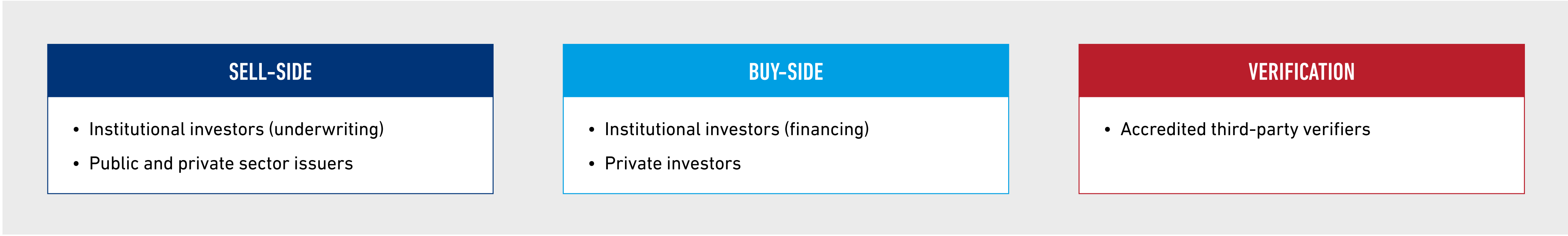




## EU GREEN BOND STANDARD (EU-GBS) – TO WHOM DOES IT APPLY?



The EU-GBS will impact market participants on the buy- and sell-side, should they choose to adopt it



\* Institutional investors include asset managers, pension funds, insurance undertakings and banks



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- **Taxonomy Regulation:** <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?>
- **Low-carbon benchmark Regulation:** <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2089&from=EN>
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- **TEG Usability Guide on the EU Green Bond Standard:** [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-green-bond-standard-usability-guide\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en.pdf)
- **TEG Final Report on Benchmarks:** [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190930-sustainable-finance-teg-final-report-climate-benchmarks-and-disclosures\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190930-sustainable-finance-teg-final-report-climate-benchmarks-and-disclosures_en.pdf)
- **Targeted Consultation on the Establishment of an EU Green Bond Standard:** [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/2020-eu-green-bond-standard-consultation-document\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2020-eu-green-bond-standard-consultation-document_en.pdf)
- **EBA Action Plan on Sustainable Finance:** [https://eba.europa.eu/sites/default/documents/files/document\\_library//EBA%20Action%20plan%20on%20sustainable%20finance.pdf](https://eba.europa.eu/sites/default/documents/files/document_library//EBA%20Action%20plan%20on%20sustainable%20finance.pdf)





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\*Where permitted under applicable country laws