

5 May 2022

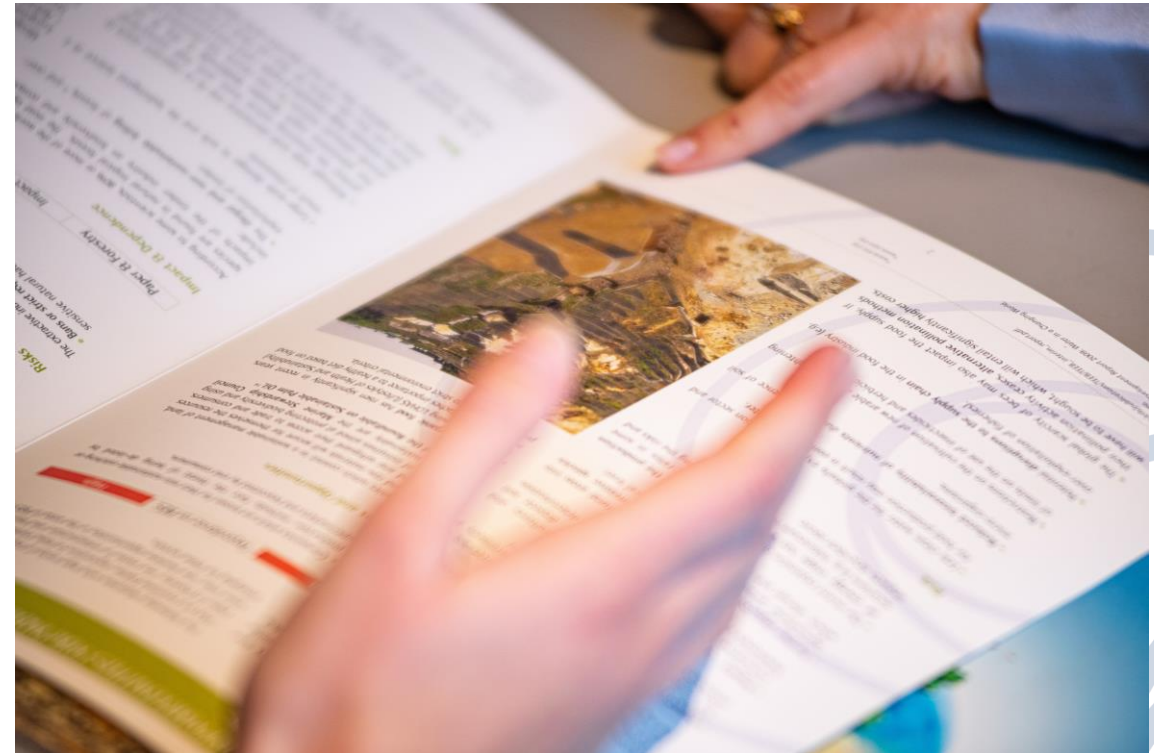
EU SUSTAINABLE FINANCE UPDATES

Eurosif
The European Sustainable Investment Forum

Agenda of this edition

Thursday 5 May 2022

- **CSRD: State of Play**
- **EFRAG consultation** on structure & content of sustainability reporting standards
- **EU Green Bond Standards** update
- Commission consultation on **ESG ratings**



CSRD: State of Play

PROCESS

- Negotiations between the co-legislators; the European Parliament and the Council, involving the European Commission, (known as trilogues) to determine the final provisions of CSRD are currently underway.
- Concluding the CSRD negotiations by June is a **priority for the French Presidency of the Council**.
- Thus far there have been two ‘political’ trilogues – the first took place on 28th March and the second on 25th April. A third and final ‘political’ trilogue is scheduled for **18th May** with a desire for a full political agreement to be reached.
- In addition to the ‘political’ trilogues at which the more contentious differences in the positions of the co-legislators are addressed, there has been a lot work going on at technical level to finalise the provisions of CSRD.



**PRÉSIDENCE FRANÇAISE DU
CONSEIL DE L'UNION EUROPÉENNE**



European Parliament

CSRD: State of Play



European Parliament



PRÉSIDENTIE FRANÇAISE DU
CONSEIL DE L'UNION EUROPÉENNE

SUBSTANCE

- Thus far, the most contentious issues to arise during trilogues concern; (i) the scope of the CSRD, (ii) creating a list of ‘high-risk’ sectors & activities, and (iii) the provision of independent assurance of sustainability reporting.
- The European Parliament has sought a more ambitious scope of application for EU sustainability reporting standards by proposing that CSRD apply to **non-EU companies that sell products & services into the EU.**
- The European Parliament has also pushed for a list of high-risk economic sectors & activities to be outlined during the implementation of CSRD (through a Delegated Act).
- Finally, the European Parliament has also sought to restrict audit firms responsible for financial auditing **from also carrying out the assurance of sustainability reporting for the same company.**

CSRD: State of Play

SUBSTANCE

- The Council (and the European Commission) are largely unfavourable to the extended scope and additional requirements on independent assurance proposed by the European Parliament.
- The Commission has prepared a number of ‘non-papers’ to facilitate the Council and European Parliament in finding a compromise.
- In the non-papers, the Commission outlines the legal, enforcement & practical complications that adoption of the European Parliament’s proposals would imply.
- These divergences are to be resolved during the ‘political’ trilogues.
- In terms of the content of the disclosures, both the European Parliament and the Council are broadly aligned.

The third & final ‘political’ trilogue is scheduled for 18th May.

If a political agreement is reached it will then be validated in accordance with the internal procedure of the Parliament & Council

EFRAG consultation on the structure & content of sustainability reporting standards

What's new – The EFRAG launched a consultation on the draft EU Sustainability Reporting Standards (ESRS)

Deadline – 8th of August 2022

The EFRAG's procedure – I) The drafts were prepared by the task-force on ESRS and under its sole responsibility. I) After the handover from the task-force, the newly established **Sustainability Reporting Board (SRB)** and the **Sustainability Reporting Technical Expert Group (TEG)** will consider the drafts and the responses, and agree the **final first set** of draft ESRS. III) The EFRAG will conduct a **cost-benefit analysis** to be sent to the EU Commission. IV) **Outreach events** will be organised.



What's next

- By **November 2022**: the EFRAG is expected to deliver the first set of standards to the EU Commission, as a technical advice
- The **EU Commission** will consider the EFRAG's technical advice, consult with other entities (as determined in the text of the CSRD) and adopt a delegated act
- The objective of the EU Commission is to **adopt the delegated act by the first half of 2023**; entry into force is expected as of 2024

Unpacking the EFRAG consultation Architecture & contents of the standards

1. CROSS CUTTING STANDARDS

- General principles (e.g. how to apply the CSRD principles, how to prepare the reports)
- General, strategy, governance and materiality assessment (e.g. how the company identifies risks, opportunities and impacts)

2. TOPICAL STANDARDS → sector agnostic

- Environmental standards (5 standards – e.g. climate change)
- Social standards (4 standards – e.g. workers in the value chain)
- Governance standards (3 standards – e.g. business conduct)

3. SECTOR SPECIFIC STANDARDS (not drafted yet)

In each standard

- List of disclosure requirements
- Application guidance (e.g. calculation rules for GHG emissions in the climate standard, and details on decarbonisation targets)

→ Both are mandatory and will be part of the delegated act



Interesting contents for investors (appendix of the cover note):

- Table with the list of SFDR PAIIs and the corresponding disclosure requirements in the EFRAG draft standards
- Tentative reconciliation table between the EFRAG standards and the TCFD
- Tentative reconciliation table between EFRAG standards and the ISSB

Unpacking the EFRAG consultation

Structure & contents of the consultation

The current public consultation aims at receiving feedback on 3 key aspects of the exposure drafts;

The documents are organised into 8 questionnaires.

1. Overall substance of the exposure drafts

- the relevance of the proposed architecture
- the implementation of the CSRD principles (e.g. double materiality, value chain, time horizon)
- the overall content and relevance of each exposure drafts

2. the possible options for prioritising / phasing-in the implementation of the ESRS (on comparative information and entity specific-disclosures)

3. the adequacy of each disclosure requirement

- cross-cutting standards
- environmental standards
- social standards
- governance standards



EU Green Bond Standard update

PROCESS

- The European Commission tabled a proposal for an EU Green Bond Standards (EuGBS) on 6th July 2021.
- The European Parliament and the Council have since been determining their respective positions & amending the Commission proposal accordingly.
- On 8th April, the Council reached a [General Approach](#) (a compromise among the Member States) on the Commission proposal.
- The ECON Committee was initially scheduled to vote on the position of the European Parliament at the end of April but the vote has been postponed.
- Once both of the co-legislators have adopted their respective positions they can enter trilogues to determine the final provisions of the EuGBS.



EU Green Bond Standard update

SUBSTANCE

- In terms of content, the [General Approach](#) adopted by the Council does not envisage many amendments to the European Commission proposal.
- The most significant Council amendment is to Article 6 [see **Article 6(1a)**] in which a ‘flexibility pocket’ is introduced, allowing 20% of EU green bond proceeds to be allocated to activities not covered by the Taxonomy.
- Additional disclosures must be made in relation to bond proceeds availing of this flexibility and allocated to non-Taxonomy eligible or aligned activities.
- As per **Article 11**, Sovereign issuers of EU Green Bonds will be subject to pre- & post-issuance reviews of their European Green bond factsheets & allocation reports by external reviewers. However, this review process will likely be more lenient in view of **Recital 16**.



EU Green Bond Standard update



SUBSTANCE

- The European Parliament is yet to finalise its position on the Commission proposal.
- However, as always, the European Parliament envisages more amendments to the Commission proposal.
- Significantly, the Parliament has also made provision for a ‘flexibility pocket’ allowing 20% of bond proceeds to be allocated to non-Taxonomy eligible or aligned activities. If both Parliament & Council align on this provision it will be uncontentious during trilogues.
- Most interestingly, the Parliament is contemplating the introduction of an EU Transition Bond label (EuTB) to reflect debt financing of transitional activities covered by the EU Taxonomy.
- Debate in Parliament continues as to whether EuTBs should be developed and whether there should be additional transparency around gas & nuclear financing.

The European Commission has initiated a consultation on ESG ratings in the EU

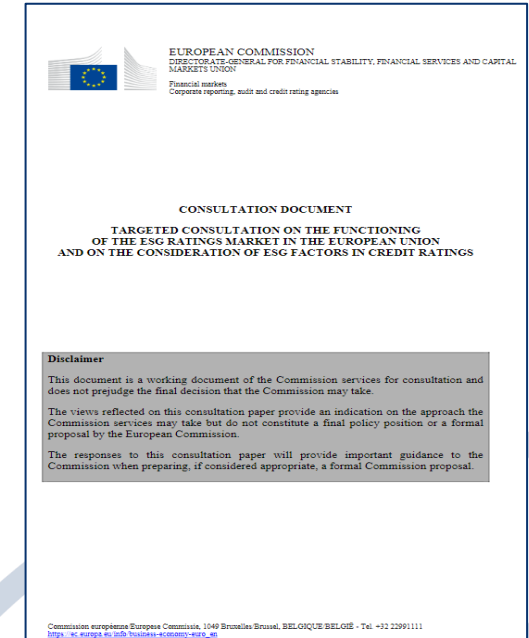


Consultation period: 4 April – 6 June 2022

Topics covered: ESG ratings & integration of ESG information in credit ratings

Focus on the ESG ratings section:

- Questions on the **use of ESG ratings** → e.g. role and relevance in the investment decision; purpose; expectations on how the use and the market will evolve
- Questions on the **functioning of the ESG ratings market** → e.g. problems and shortcomings; quality of products; potential existence of biases, low correlation on outcomes; value of having a variety of products; potential conflicts of interest
- Questions on the opportunity and the characteristics of a **EU regulatory intervention** → e.g. need for; minimum disclosure requirements on methodologies, and how this information should be disclosed; opportunity to introduce a registration or authorisation system; costs



What's next

- Standalone regulation on ESG ratings
- Focus on transparency
- Legislative proposal expected by Q1 2023

Thank you!

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