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7 July 2022

EU SUSTAINABLE FINANCE UPDATES

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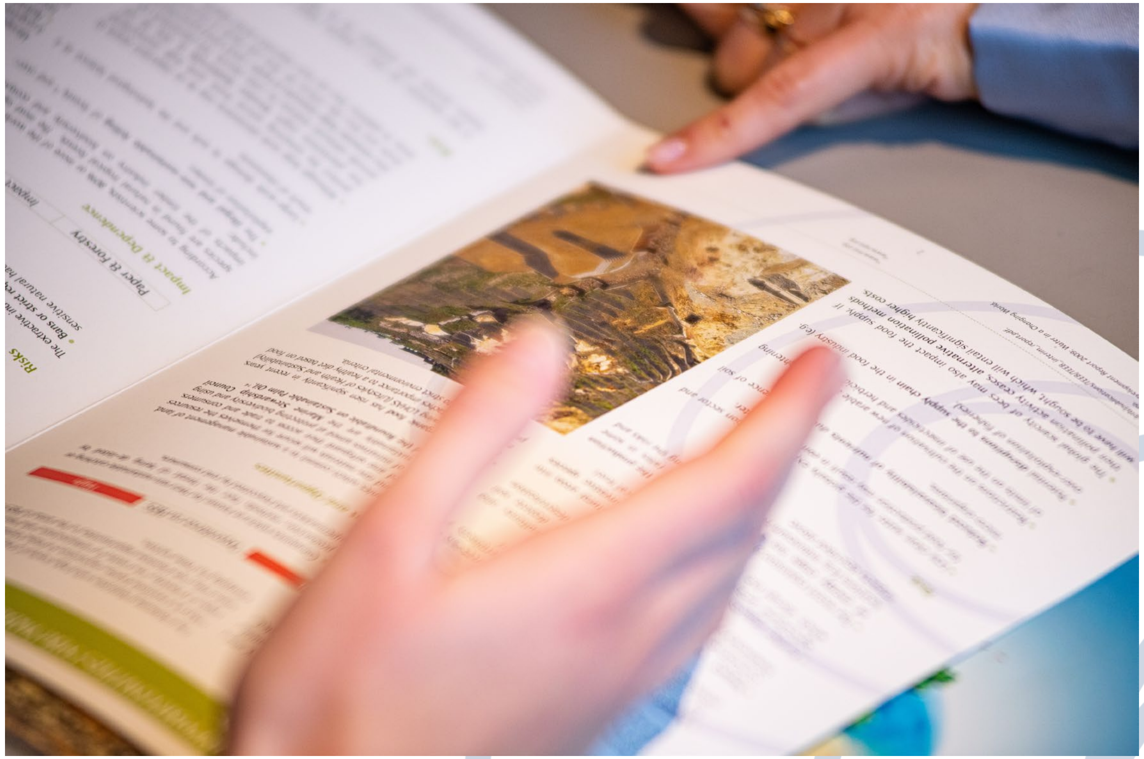
The European Sustainable Investment Forum

PROMOTING SUSTAINABILITY THROUGH EUROPEAN FINANCIAL MARKETS

Agenda of this edition

Thursday, 7 July 2022

- EU Taxonomy – outcome of the vote on the Complementary Delegated Act (CDA)
- Final agreement on CSRD
- ESMA's findings on ESG ratings
- Eurosif policy recommendations on SFDR



EU Taxonomy

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- On 6th July, the European Parliament voted against an objection to the Complementary Delegated Act (CDA) including natural gas & nuclear energy in the EU Taxonomy.
  - 278 MEPs voted in favour of the objection
  - 328 MEPs voted against the objection
  - 33 MEPs abstained
- Accordingly, **natural gas & nuclear energy will now be included in the EU Taxonomy as 'transitional activities',** provided they satisfy the technical screening criteria contained in the CDA.

EU Taxonomy

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- The outcome of the vote was difficult to predict with any certainty in advance. The CDA has grown more contentious since the Russian invasion of Ukraine.
- The inclusion of gas & nuclear in the Taxonomy now necessitates **additional Taxonomy-related product disclosures** under SFDR to ensure transparency around exposures to gas & nuclear.
- The European Supervisory Authorities (ESAs) are already developing these disclosures, having received a mandate to do so from the European Commission on 8th April.
- Additional disclosures will also be required around **EU Green bond proceeds that finance gas & nuclear projects.** The current position of the European Parliament anticipated the need for these disclosures if the CDA were adopted.

Ref. Ares(2022)2798608 - 08/04/2022

EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL MARKETS UNION

The Director-General

Brussels
FISMA.C.4/LB/mp(2022)2728232

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Subject: Re: amendments to regulatory technical standards under the Sustainable Finance Disclosure Regulation 2019/2088

Dear Ms Hielkema, Dear Ms Ross, Dear Mr Campa,

On 4 February 2021, the European Insurance and Occupational Pensions Authority, the European Securities and Markets Authority and the European Banking Authority (collectively the ESAs) jointly submitted to the Commission a first batch of seven draft regulatory technical standards under Articles 2a(3), 4(6) and (7), 8(3), 9(5), 10(2) and 11(4) of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 (SFDR).[1]

On 22 October 2021, the ESAs jointly submitted to the Commission a second batch of six draft regulatory technical standards under Articles 8(4), 9(6) and 11(5) SFDR.

The Commission decided to bundle all 13 draft regulatory technical standards in a single delegated regulation and defer the date of application of the act to 1 January 2023. The Commission adopted the SFDR Delegated Regulation on 6 April 2022.

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

Corporate Sustainability Reporting Directive (CSRD)

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PROCESS

- On 21 June, **the Council and the European Parliament reached a** political agreement on the final text of the CSRD
- The European Parliament and the Council will have to formally approve the agreement before it is published in the EU Official Journal
- On 29 June, the Coreper (Committee of the Permanent Representatives of the Governments of the Member States to the European Union) approved the political agreement

NEXT STEPS

- The **EP Legal Affairs (JURI) Committee** is expected to vote on the provisional agreement on 14 July
- It will enter into force 20 days after publication and its provisions will have to be integrated into member states' national laws after 18 months

Conseil de l'Union européenne

Bruxelles, le 30 juin 2022
(OR. fr, en)

10835/22

Dossier interinstitutionnel:
2021/0104(COD)

DRS 36
EF 196
ECOFIN 693
SUSTDEV 122
CODEC 1058
COMPET 564

NOTE

Origine:	Secrétariat général du Conseil
Destinataire:	Comité des représentants permanents
Objet:	Directive modifiant les directives 2013/34/UE, 2004/109/CE et 2006/43/CE ainsi que le règlement (UE) nº 537/2014 en ce qui concerne la publication d'informations en matière de durabilité par les entreprises - Lettre du président du COREPER à la présidence de la commission JURI du Parlement européen

Les délégations trouveront en annexe la lettre adressée par le président du Comité des représentants permanents (1ère partie) à la présidence de la commission JURI du Parlement européen concernant la proposition de Directive modifiant les directives 2013/34/UE, 2004/109/CE et 2006/43/CE ainsi que le règlement (UE) nº 537/2014 en ce qui concerne la publication d'informations en matière de durabilité par les entreprises.

Corporate Sustainability Reporting Directive (CSRD)

KEY CONTENTS OF THE FINAL TEXT

Scope

- **all large and all listed companies (>250 employees)**, also responsible for assessing the information at the level of their subsidiaries
- **All listed SMEs** with 'opt-out' from reporting requirements for a two-year transitional period
- **non-EU companies** generating a net turnover of €150 million in the EU with at least one subsidiary or branch in the EU

Standards

- **EFRAG** will be responsible for developing European standards
- Commission shall adopt the standards as level 2 delegated acts:
  - **first set of standards** by 30 June 2023
  - **second set** and sector specific standards by 30 June 2024

Audit

- **Sustainability reporting must be certified** by an accredited **independent** auditor or certifier
- **The process of accreditation** for non-financial auditors and assurance providers can be carried out in one of the Member States and should be allowed to operate in any other country
- **The reporting of non-European companies** must also be certified, either by a European auditor or by one established in a third country

Timing – gradual approach to reporting

- 2025 (for financial year 2024) for companies already subject to the NFRD
- 2026 (for financial year 2025) for other large listed and non-listed companies
- 2027 (for financial year 2026) for listed SMEs with 'opt-out' for 2 years
- [illegible] (for financial year 2028) for non-EU companies

ESMA’s call for evidence on ESG ratings

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- On the 24th of June ESMA wrote a letter to the EU Commission to brief on the key results of its **call for evidence** on the nature and scale of the **ESG ratings market** in the EU
- The call for evidence targeted 3 categories of entities: **providers, users,** and **covered/rated entities.**
- ESMA received over **150 responses**: 75 users, 34 providers, and 47 rated entities.

<u>ESG ratings’ providers: main results</u>

- Based on the information collected through the responses, ESMA concluded that **59 ESG rating providers are currently active in the EU market**
- **Structure of the market** – A small number of large non-EU providers, and a large number of smaller EU entities; almost 90% have legal entities and/or corporate headquarters located in the EU (mainly Germany, Italy and France); a relatively large number of providers with small revenues
- **Business model** – The predominant is **“investor-pays” model**; however, 1/3 respondents among providers indicate that they provide ESG ratings on an issuers-pays model (higher than

esma European Securities and Markets Authority

The Chair
24 June 2022
ESMA22-328-603

Mr John Berrigan
Director General
Directorate General for Financial Stability, Financial Services and Capital Markets Union
European Commission
Rue de la Loi I/Wetstraat 200
1049 Brussels, Belgium

Ref: Outcome of ESMA Call for Evidence on Market Characteristics of ESG Rating and Data Providers in the EU

Dear Mr Berrigan, *dear Sean,*

I am pleased to be able to provide you with ESMA’s overview of the market for ESG rating providers in the EU which is a key topic under both the European Commission’s Strategy for Financing the Transition to a Sustainable Economy and ESMA’s Sustainable Finance Roadmap.

<u>**Background**</u>
- November 2021 – **IOSCO recommendations**
- April/June 2022 – **EU commission consultation on ESG ratings**
- EU Commission’s EU **legislative proposals expected for Q1 2023**

ESMA's call for evidence on ESG ratings

<u>**ESG ratings' users: key results**</u> (large and small asset managers)

- **Relevance of ESG ratings in the investment process** – ESG ratings and/or other ESG data products are inputs in the investment decision making process of EUR 3,787 investments (48% of total assets under management)
- Asset managers tend to <u>**buy ESG ratings from multiple providers**</u> for 3 main reasons: 1) to **increase coverage**; 2) to access **different nature of ESG assessments**; 3) to obtain information **to comply with different regulatory requirements**; 4) to **compare/validate results**.
- <u>**What do investors want from ESG rating**</u> – 1) Breadth & depth of **data coverage;** 2) **transparency on methodologies** and data; 3) **market relevance** of the ESG rating provider
- <u>**Which shortcoming do users identify**</u> – 1) Lack of **coverage** of specific industries and/or categories of entities; 2) insufficient **granularity of data**; 3) high complexity and **lack of clarity on methodologies** and data sources; 4) **low comparability** and correlation; 5) **lack of common definitions** on "ESG"; 5) minimum term and **fee rates** of ESG data and rating contracts.

<u>**Takeaways**</u>

- Respondents among users are strongly in favour of the EU considering regulatory measures to limit the mis-selling and misuse of ESG ratings
- ESMA: "immature, but growing market"; large number of smaller and specialised EU providers & small number of larger non-EU providers less with a broader offer

Eurosif recommendations on SFDR

- Eurosif recently published policy recommendations to address some of the challenges that financial market participants have encountered when applying SFDR, particularly around **product classification**.
- Articles, 6, 8 & 9 have become a point of reference or label of sorts.
- Technically, Article 8 & 9 merely stipulate disclosure requirements but they have come to **signify more in the market**, being perceived as products with some level of sustainability ambition.
- **Legal uncertainties** have arisen as to when Article 8 disclosures should apply.
- The definition of 'sustainable investment' provided by Article 2(17) is also very vague, resulting in **divergent applications** by FMPs.
- The Eurosif report includes a series of policy recommendations to address some of these issues. The report is available on the Eurosif website.

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Thank you & see you in September!

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