



3rd November 2022

# EU SUSTAINABLE FINANCE UPDATES

**Eurosif**  
The European Sustainable Investment Forum

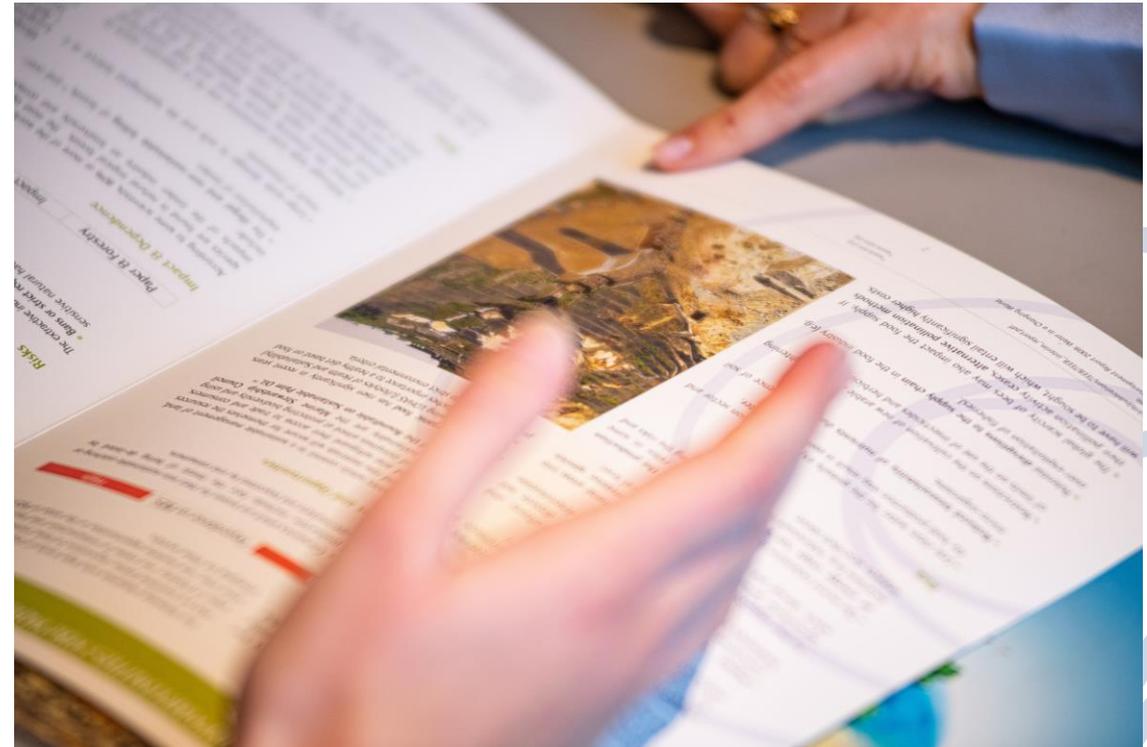
PROMOTING SUSTAINABILITY THROUGH  
EUROPEAN FINANCIAL MARKETS

# Agenda of this edition

Thursday 3 November 2022

---

- **FCA consultation paper** on SDR disclosures & investment labels
- **CSDDD – State of Play**
- **Platform for Sustainable Finance – Final Reports & Call for Applications**
- **EBA report** on incorporation of ESG risks in the supervision of investment firms
- **Shareholder Rights Directive – Call for Evidence**



# FCA proposals for investment labels

## FCA consultation paper on SDR disclosures & investment labels

- On 25<sup>th</sup> October, the Financial Conduct Authority (FCA) published a highly anticipated consultation paper ([CP22/20](#)) on SDR disclosures & investment labels.
- The consultation paper outlines FCA proposals for a product labelling regime for funds with varying sustainability characteristics in the UK, in addition to consumer-facing disclosures, (institutional) investor-facing disclosures and a general anti-greenwashing rule.
- The consultation will remain open until 25<sup>th</sup> January 2023.



# FCA proposals for investment labels

## FCA consultation paper on SDR disclosures & investment labels

- Most notably, the FCA envisages the creation of three labels for investment products, which convey, in broad terms, the ‘sustainability profile’ of the product and its overall approach.
- For a product to use one of the labels it must satisfy certain qualifying criteria. Describing a product in certain terms – such as ‘sustainable’, ‘ESG’ and/or ‘green’ **will be prohibited unless you qualify for use of one of the labels.**
- The 3 labels proposed by the FCA are;



# FCA proposals for investment labels

## FCA consultation paper on SDR disclosures & investment labels



- Products with an objective to maintain a **high standard of sustainability in the profile of assets** by investing to (i) meet a credible standard of environmental and/or social sustainability; or (ii) align with specific sustainability theme.



- Products with an objective to **deliver measurable improvements** in the sustainability profile of assets over time. These products invest in assets that, while not currently sustainable, have the potential to be.



- Products with an explicit objective to achieve a positive, measurable contribution to sustainable outcomes. These are invested in assets that provide solutions to environmental or social problems.

# FCA proposals for investment labels

## FCA consultation paper on SDR disclosures & investment labels

- In order to qualify for use of the labels, a product must satisfy 5 general criteria, adapted into label-specific requirements.
- These qualifying criteria are;

**Principle 1, Sustainability Objective.** A sustainable investment product must have an explicit environmental and/or social sustainability objective.

**Principle 3, Key Performance Indicators.** A firm must specify credible, rigorous and evidence-based KPIs that measure a sustainable investment product's ongoing performance towards achieving its sustainability objective.

**Principle 5, Stewardship.** A firm must maintain its active investor stewardship strategy and resources (at firm-level or product-level) in a manner consistent with the sustainable investment product's sustainability objective.

**Principle 2, Investment Policy and Strategy.** A firm's investment policy and strategy for the sustainable investment product must be aligned with its sustainability objective.

**Principle 4, Resources and Governance.** A firm must apply and maintain appropriate resources, governance and organisational arrangements commensurate with the delivery of the sustainable investment product's sustainability objective.

# FCA proposals for investment labels

## FCA consultation paper on SDR disclosures & investment labels

- Interestingly, the FCA differentiates between ‘enterprise contribution’ and ‘investor contribution’ to sustainability outcomes and will require investors to outline how they have contributed.
- The FCA recognises three channels (or mechanisms) through which investors can make a contribution;
  - Active Stewardship
  - Influencing asset prices & cost of capital
  - allocating capital to solutions & underserved markets

### NEXT STEPS

The FCA consultation will close on 25<sup>th</sup> January 2023

The FCA will issue a **Policy Statement** by 30<sup>th</sup> June 2023

The new rules will apply as of 30<sup>th</sup> June 2024

# CSDDD – State of Play

---

## Background

- **23rd February 2022** –EU Commission’s proposal for a Corporate Sustainability Due Diligence Directive (CSDDD)
- **Scope:** companies established in the EU or operating in the EU (generating turnover); with more than 500 employees and a net turnover exceeding 150 million; with more than 250 employees and a net turnover exceeding 40 million (50% of which generated in certain high-risk sectors such as textile, agriculture & food, minerals).
- **Obligations for financial and non-financial companies** regarding: **due diligence on environmental & human rights adverse impacts**; adoption of a **transition plan** in line with the objective of limiting global warming to 1.5 °C; **directors’ duties** on sustainability; **directors’ remunerations** linked to transition plans; **civil liabilities** for companies that fail to comply with requirements on the due diligence, when damages occur.

# CSDDD – State of Play

---

## Provisions for financial institutions

There are some exemption for financial institutions on the due diligence:

- The obligation is limited to a **pre-service assessment** – when financial institutions in the scope provide credit, loan or other financial services, the identification of the adverse impacts must be carried out only before providing that service;
- The pre-service assessment only considers the activities of the **clients receiving the financial service**;
- The definition of **value chain does not include SMEs** receiving loans, credits, financing, insurance or reinsurance services.

Aspects of due diligence for financial institutions are covered in some sector-specific EU legislations: **SFDR** (disclosure requirements); Delegated acts for **UCITS/AIFMD** (some obligations).

# CSDDD – State of Play

## In the EU Parliament



- Committee responsible: **Committee on Legal Affairs** (JURI); other Committees involved for opinions

### Timeline for JURI committee:

- **17th November:** consideration of the draft report
- **30th November:** deadline for amendments
- **March 2023:** JURI vote

## In the EU Council

The Czech Presidency aims to agree on a **general approach by December 2022.**

The Working Party on Company Law is expected to meet and discuss on 7th and 8th November, and at the beginning of December.



# CSDDD – State of Play

## Among the topics discussed

- Scope (alignment with the CSRD)
- Value chain vs. supply chain
- Directors' duties
- Role of financial institutions



# Platform on Sustainable Finance

The EU Commission is selecting **new members for the second mandate from Q1 2023 to Q4 2024.**

The Platform will be divided into sub-groups focusing on:

- the usability of the Taxonomy and the wider EU sustainable finance framework;
- the development of additional technical screening criteria and possible revisions of the existing criteria;
- monitoring of capital flows into sustainable investments.

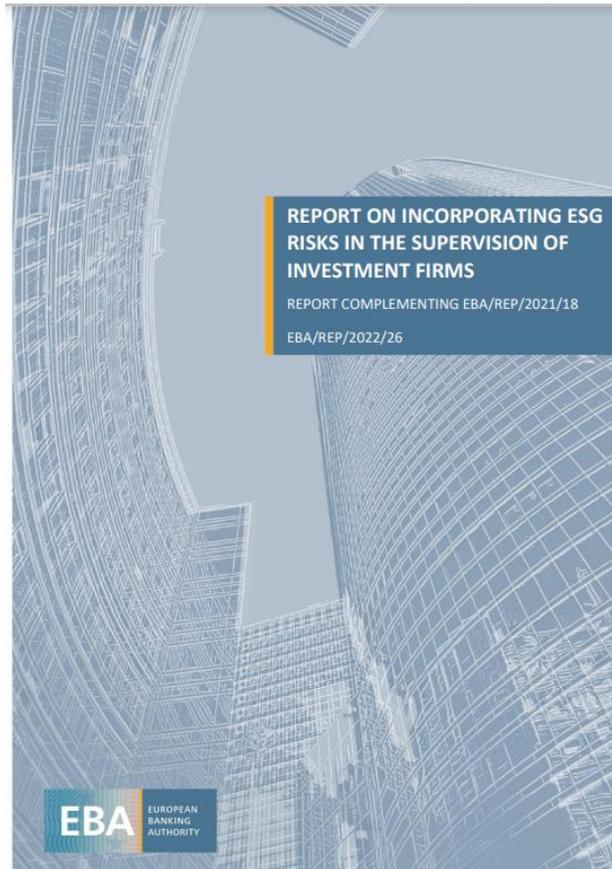
**Deadline: 9th November 2022 12:00 CET.**

On 11<sup>th</sup> October the Platform published 2 reports:

- Data & usability of the Taxonomy
- Final guidelines on Minimum Social Safeguards



# EBA report on integration of ESG risks



- On 24<sup>th</sup> October, the European Banking Authority published a [report](#) on the integration of ESG risks in the supervision of investment firms.
- The report, addressed to national competent authorities (NCAs), sets out how NCAs should integrate consideration of investment firms' exposure to ESG risks in the Supervisory Review & Evaluation Process (SREP).
- The EBA acknowledges the challenges associated with assessing investment firms' ESG risk exposure, not least data constraints.
- The EBA instructs NCAs to introduce consideration of ESG risks in the supervision of investment firms gradually, respect the principle of proportionality and prioritise the assessment of climate & environmental risks.

# Shareholder Rights Directive (SRDII)

- On 11<sup>th</sup> October, ESMA published a [Call for Evidence](#) concerning the application of certain provisions of the SRDII.
- Namely, ESMA is seeking to understand whether SRDII's provisions on the identification of shareholders, transmission of information, facilitation of the exercise of shareholder rights, and transparency of proxy advisors have been effective.
- The Call for Evidence will be open until 28<sup>th</sup> November and will feed into a report by the European Commission on whether to review SRDII.



# Thank you & see you in December!

Eurosif

The European Sustainable Investment Forum

Join us:    YouTube [www.eurosif.org](http://www.eurosif.org)