Recent Developments in EU Sustainable Finance

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EU’s Sustainable Finance Action Plan

Mapping and links of the 10 actions along the investment chain

1. Reorienting capital flows towards sustainable investment
2. Mainstreaming sustainability into risk management
3. Fostering transparency and long-termism

Source: EC
Technical Expert Group (TEG) and Deliverables

**TEG**
- Set up by EC in June 2018 among HLEG members following the adoption of Action Plan
- 35 members from civil society, academia, business and finance, etc.
- **ICMA is a member of TEG**
- Mandate in advisory role until Sept. 2020

**Deliverables**
- EU Taxonomy Final Report (March 2020)
- EU Green Bond Standard Usability Report (March 2020)
- EU Climate Benchmarks and Benchmarks’ ESG Disclosures (September 2019)
- Climate-related Disclosures (January 2019)
The Taxonomy Proposal

What is the Taxonomy?

What is set out in the Proposal?

A list of economic activities that are considered environmentally sustainable for investment purposes

The framework to develop the taxonomy. For an economic activity to be on the list, it has to comply with four conditions:

- Substantially contribute to at least one of the six environmental objectives as defined in the proposed Regulation*
- Do no significant harm (DNSH) to any of the other six environmental objectives as defined in the proposed Regulation*
- Comply with minimum safeguards
- Comply with quantitative or qualitative Technical Screening Criteria

*The six environmental objectives as defined in the proposed Regulation are: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy, waste prevention and recycling; (5) pollution prevention and control; (6) protection of healthy ecosystems.

### Conditions
- Substantial contribution to env. objectives
- DNSH
- Technical screening criteria by TEG
- Minimum social standards and safeguards

### Environmentally Sustainable Activities
- Recognition of transition and enabling activities
- “Climate neutral energy”: No clear position on nuclear or gas
- Review clause

### Application Scope
- Member States and the EU setting requirements on Environmentally Sustainable financial products or corporate bonds
- Disclaimer for Funds and Pension Products not pursuing sustainability

### Implementation Timeline
- Reg. to be adopted in 2020
- Delegated acts for climate change mitigation and adaption by 31.12.2020 and start applying from 31 December 2021.

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Disclosure Requirements for EU Corporates subject to the NFRD
TEG’s Taxonomy Final Report of March 2020

Description of changes to the political agreement

Explanation of climate adaptation activities

Detailed DNSH implementation guidance and the minimum safeguards

Disclosure guidance for entities subject to NFRD and the Disclosure Reg.

Technical Annex: 70 climate change mitigation and 68 climate change adaptation.
Visualisation: how would the EU-GBS work?

1. **Publication of Green Bond Framework**
   - Issuer’s green bond strategy and alignment with the EU Taxonomy
   - Description of types of Green Project categories to be financed
   - Description of methodology and process regarding allocation and impact reporting

2. **Annual allocation reports**
   - Confirmation of alignment with EU GBS
   - Breakdown of allocated amounts per project or portfolio
   - Geographical distribution of Projects

3. **Final allocation report**

4. **IMPACT REPORT**
   - Impact reporting at least once at full allocation, or annually

Documents 1 & 3 verified by approved external verifiers

Approval of external verifiers
Main Content (Guidance on)

• Aligning EU GB projects with the EU Taxonomy
• Green Bond Framework
• Reporting requirements and Templates
• Interim registration scheme for verifiers

Key Takeaways

• Restatement of recommended voluntary nature
• Recognition of de facto alignment with GBP
• Expanded flexibility for alignment of projects
• Framing of requirements for verification for the alignment with the EU Taxonomy qualitative criteria
## ICMA GBP vs EU GBS

<table>
<thead>
<tr>
<th></th>
<th>ICMA GBP (Green Bond Principles)</th>
<th>EU GBS (Green Bond Standard)</th>
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<tbody>
<tr>
<td><strong>Nature</strong></td>
<td>Voluntary Process Guidelines</td>
<td>Elective Standard</td>
</tr>
<tr>
<td><strong>Applicability</strong></td>
<td>Global</td>
<td>EU and potentially international</td>
</tr>
<tr>
<td><strong>Bond types</strong></td>
<td>Use-of-proceeds (UOP) bonds</td>
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<tr>
<td><strong>Components</strong></td>
<td>4 Core Components:</td>
<td>Add to GBP components with (i) Project alignment with EU Taxonomy (ii) formalised Green Bond Framework and (iii) more granular reporting</td>
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<tr>
<td></td>
<td>- Use-of-proceeds (UOP)</td>
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<td></td>
<td>- Process for Project Evaluation and Selection</td>
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<td></td>
<td>- Management of proceeds</td>
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<td></td>
<td>- Reporting</td>
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<tr>
<td><strong>EU Taxonomy</strong></td>
<td>No</td>
<td>Yes</td>
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<tr>
<td><strong>External reviewers</strong></td>
<td>Voluntary</td>
<td><strong>Verification required by a registered external reviewer:</strong></td>
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<td><strong>Mandatory for</strong> alignment of the Green Bond Framework and Allocation Reporting</td>
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<td><strong>Voluntary for</strong> Impact Reporting</td>
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Next steps

Consultation on renewed sustainable finance strategy

To be launched soon

Taxonomy Regulation

To be adopted in 2020 with delegated acts:
- 2020 for climate change mitigation and adaptation
- End 2021 for other environmental objectives

EU GBS

Commission communication end 2020 or alternatively EU regulation in 2021?