

CDP AND THE EU ACTION PLAN ON SUSTAINABLE FINANCE

**Outlining how CDP can help companies, investors,
cities, regions and policymakers to deliver the EU's
climate and environmental targets**





Stakeholder dialogue and feedback:

CDP is the global reporting infrastructure and database for the climate and environmental non-financial information of companies, cities, regions and investors. We aim to inform an EU regulatory framework that drives a sustainable, resilient economy and financial system. Using this mapping as a starting point, we welcome your continuous feedback to mona.freundt@cdp.net

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A number of policies or related measures under the Actions are yet to be finalized or adopted. The mapping is therefore to be seen as a living document and outlook which aims to inspire and drive the discussion and exchange with and among our stakeholders. The information provided on policies are selected with the purpose of identifying interconnectivities, synergies, and their potential for uptake of drivers for climate and environmental action among CDP stakeholders. Their descriptions therefore focus on climate and environmental-related requirements and – for simplicity – exclude mentions of social, governance and other elements. This content has been carefully researched but does not claim to be exhaustive and has not been checked by a legal expert.

Finally, a number of CDP companies and investors cannot be strictly allocated to either “Overview for Investors” or “Overview for Companies”. Depending on the scope of their business activities, they may find relevant information in both overviews.

CDP Europe and CDP refer to CDP Worldwide (Europe) gGmbH, Registered Charity no. HRB 119156 B, Local court of Charlottenburg, Germany. Executive Director: Steven Tebbe.

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PURPOSE AND OBJECTIVES OF THE MAPPING

Objectives of this mapping:

- Inform CDP stakeholder groups about how they can use CDP's disclosure system and the data analysis, tools, metrics and initiatives offered by CDP to implement, and go beyond, the regulatory requirements to spearhead sustainability leadership within the European economy and society.
- Provide information to CDP stakeholders on policies under the 'Actions' of the Action Plan, describing the purpose, scope, disclosure requirements and place of reporting, among other information, in a consistent structure that can allow disclosing entities to interconnect their disclosure requirements and develop synergies in reporting under several policies.

There is an imminent need for a sustainable financial system as a key driver for a sustainable economy that operates within planetary boundaries. The European Commission's Action Plan 'Financing Sustainable Growth' aims to move European financial market actors to allocate substantial private capital towards businesses which are transitioning towards zero carbon, resource-secure business models, in a way that is measurable and with the required pace. The same is needed from European cities and regions, which can drive sustainable business behaviour through their purchasing power and local governmental authority.

The four main CDP stakeholder groups – investors, companies, cities and regions, and policymakers – are key players in the transition of the European economy towards sustainability, resilience and well-being for people and planet.

CDP stakeholder	Acts under pressure from:	Means of pressure:
 Companies	<ul style="list-style-type: none"> Investors Policy makers Cities & Regions Companies 	<ul style="list-style-type: none"> Shares / ownership of company / debt Regulation & public procurement Local government regulation, public procurement Procurement
 Investors	<ul style="list-style-type: none"> Policy makers Investors 	<ul style="list-style-type: none"> Regulation Fiduciary duty & investment preferences
 Cities & regions	<ul style="list-style-type: none"> Policy makers Companies Investors 	<ul style="list-style-type: none"> Regulation, government budget Operations in city or region Investments in infrastructure projects
 Policymakers	<ul style="list-style-type: none"> Non-state actors (companies, investors, cities and regions) 	<ul style="list-style-type: none"> Economic power and market best practice; local government authority and mandate

CDP'S CLIMATE AND ENVIRONMENTAL NON-FINANCIAL REPORTING INFRASTRUCTURE

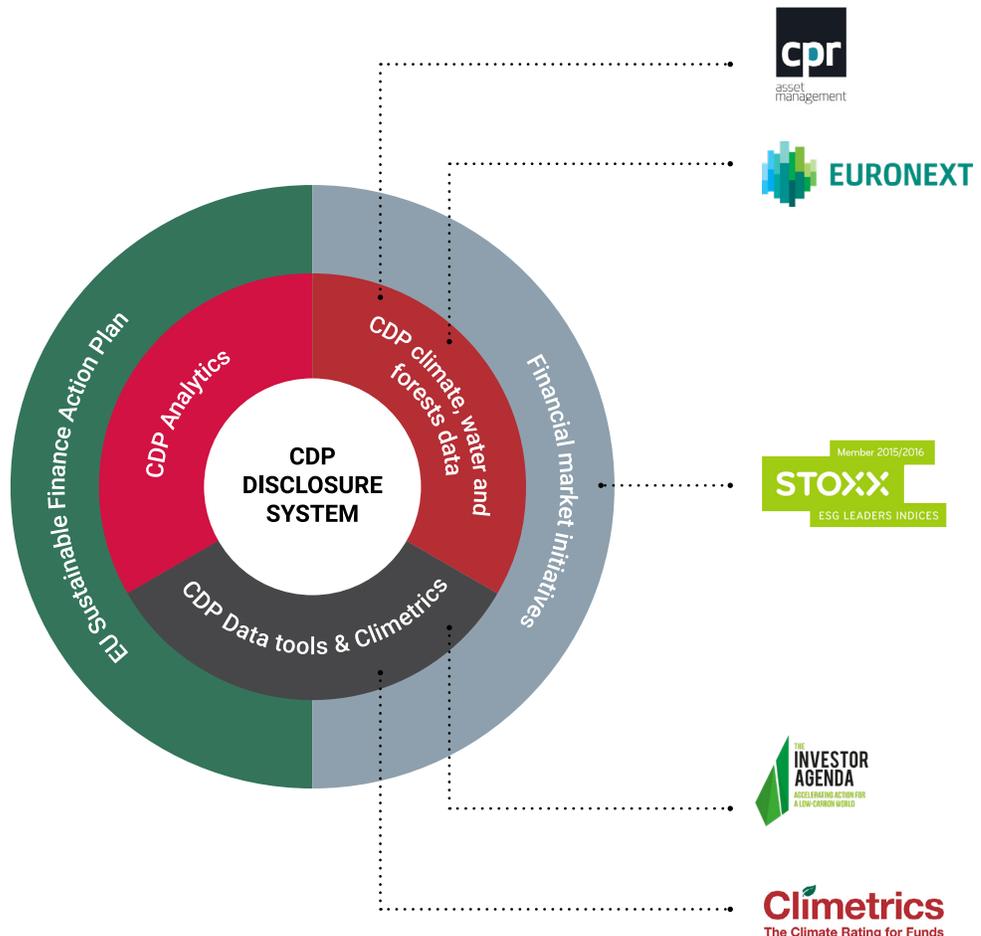
CDP's climate and environmental disclosure platform, launched in 2001, is used by companies, investors, cities and regions to report and evaluate non-financial information in a way that is consistent, comparable and standardized.

CDP has built a strong and credible foundation through which to improve market transparency about climate and environment-related risks and opportunities. It drives behavioural change within the organizations that use CDP's annual disclosure and scoring process. The data reported to CDP's standardized questionnaires are used by companies to inform their non-financial statements and annual reports, and CDP's dataset and scores are used widely by the financial markets, for example on terminals and in financial products like stock indices and funds.

CDP maintains the world's largest, most comprehensive set of climate and environmental data and is the only reporting platform and scoring methodology that is publicly available, transparent, and run under a charitable mission for the public good.

By operating the world's most widely used reporting infrastructure for companies, cities, states and regions to disclose key climate and environmental information, CDP has developed a reference scoring methodology and supports the disclosure of non-financial information in line with current best practice frameworks and standards.

Many of the reporting principles set out by frameworks and standards such as the TCFD, CDSB, GRI, IIRC, SASB, the CEO Water Mandate and more are upheld and aligned in CDP's platform to minimise the reporting burden. CDP's experience and network ensures that the platform drives current best-practice reporting and helps to evolve standards to reflect developments in public policy and environmental science.



GUIDING QUESTIONS FOR A SUCCESSFUL IMPLEMENTATION OF THE EU SUSTAINABLE FINANCE AGENDA

1 Transitioning the entire economy versus driving a green niche

How can we ensure that the Actions of the EU Sustainable Finance Action Plan drive the transition of the entire economy and not only a 'green niche'?

2 Consistent and comparable measurement

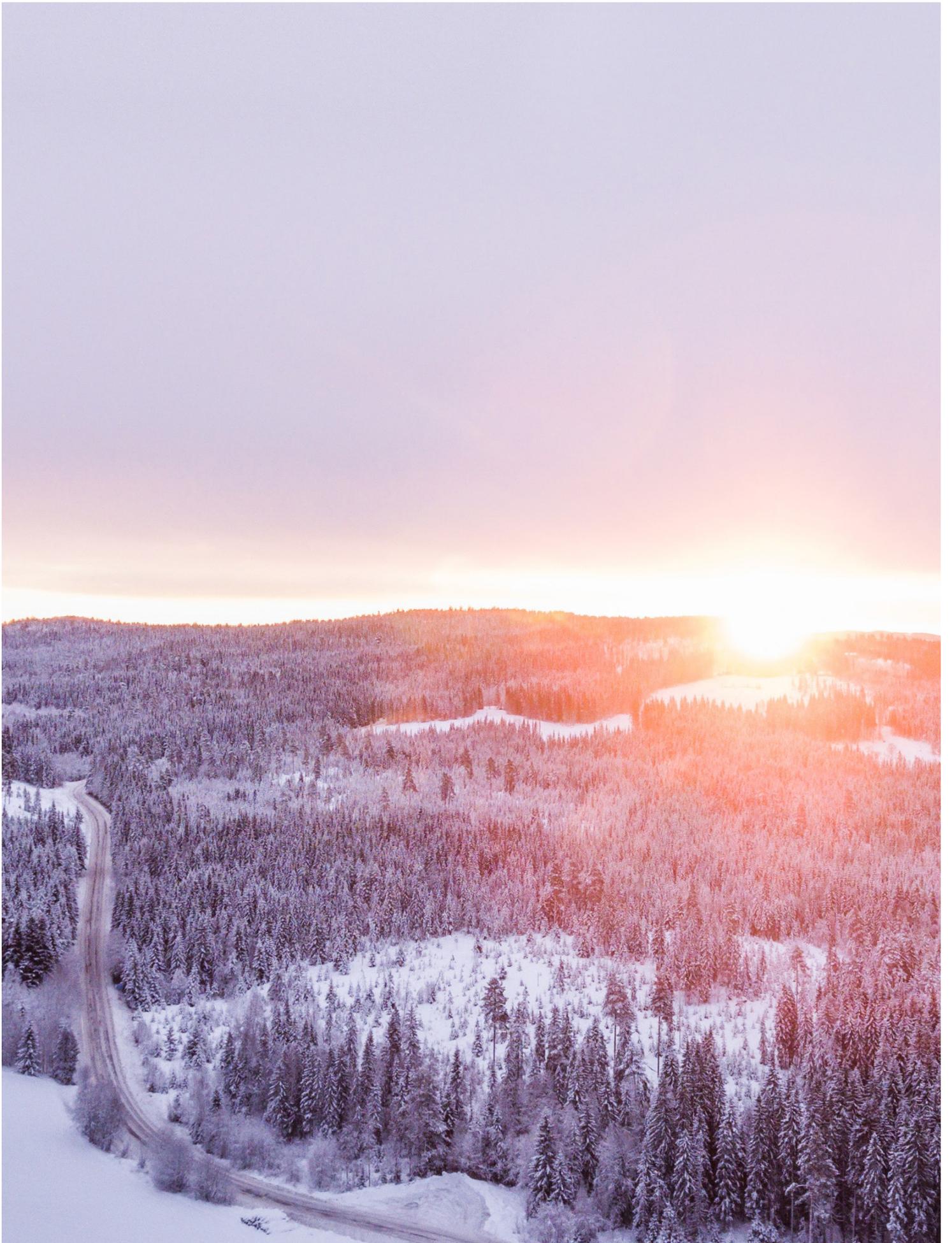
How can we speed up the development of lacking methodologies and metrics to ensure consistent measurement of all climate and environmental issues, and how can policymakers facilitate this process?

3 Rolling out climate-related financial disclosures to natural capital-related financial disclosures

How can we get governments to move faster on other environmental issues, by extending the existing climate-related reporting, governance and risk frameworks among regulators, supervisors, central banks and stock listing organisations towards water and forests?

4 Policy coherency

How do we create policy coherence and more uniformed implementation across EU Member States, especially regarding how corporate reporting and governance can be coherent with investor reporting and fiduciary duties?



CDP DISCLOSURE, DATA, METRICS AND TOOLS SUPPORTING THE ACTIONS



For an overview of each policy, their scope and criteria, please see page 32: *'Information on policies under the Actions'*

A. Overview for INVESTORS

Policies	CDP
EU Taxonomy Regulation	<p>The EU Taxonomy will be reflected in the CDP climate change questionnaire from 2020 onwards. Around 2.100 European and 8.400 companies worldwide will be able to choose the EU Taxonomy as a classification system they refer to when reporting their low carbon products and/or services that enable third parties to avoid GHG emissions.</p> <p>Action 1: <i>Establishing an EU classification system for sustainable activities</i></p> <p>As a result, the 515 CDP investor signatories accessing the CDP dataset will be able to better identify the companies engaged in EU Taxonomy-compliant activities.</p> <p>With the final Technical Expert Group (TEG) report published in March 2020, the work of the TEG has officially ended. Further the implementation of the taxonomy will be executed through delegated acts by the EC. Starting after the 31st December 2020, financial market participants inside and outside the EU will be required to complete their first set of disclosures against the Taxonomy for the environmental objectives climate change mitigation and adaptation for financial products offered in the EU.</p>
Green Bonds Standard	<p>Action 2: <i>Creating standards and labels for green financial products</i></p> <p>CDP investor signatories looking to invest in green bonds may use CDP company data and scores for further insights into an issuer's climate-related governance, risk management and strategy to supplement project-level information.</p>
EU Ecolabel Regulation	<p>Action 2: <i>Creating standards and labels for green financial products</i></p> <p>CDP's climate-related disclosure data covering over 8.400 companies worldwide can inform investors looking to build EU Ecolabel- compliant products, by offering insights into corporate climate risks, opportunities, governance and management strategies.</p>
MiFID II	<p>Action 4: <i>Incorporating sustainability when providing financial advice</i></p> <p>CDP investor signatories may use Climetrics ratings to communicate the environmental performance of their funds more effectively, helping advisors and financial intermediaries to better meet customer preferences for climate-friendly investments.</p> <p>CDP investor signatories may use CDP company climate, water and forest scores to communicate the environmental performance of individual corporate issuers.</p> <p>CDP data also feeds into the wider ESG research industry of which research and ratings can be used when giving financial advice.</p>

Policies	CDP
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Insurance Distribution Directive (IDD)	
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Action 4:
Incorporating sustainability when providing financial advice

Insurance intermediaries and insurance undertakings may use Climetrics ratings or CDP scores as a classification standard to define the environmental profile of an insurance product.

Benchmark Regulation	
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For a more detailed analysis, please also see the section: **Excursion: Data provided by CDP for CTB or PAB construction.**

Benchmark administrators may use CDP's extensive corporate climate dataset and GHG emissions estimations to compute and disclose environmental metrics, particularly the GHG intensity of a benchmark and, in the future, the temperature pathway of a benchmark. CDP methodologies are public.

Benchmark administrators can use CDP company data and scores to:

- ▼ Define criteria for the choice of the underlying assets, including, where applicable, any exclusion criteria for assets;
- ▼ Define criteria and method for the weighting of the underlying assets in the benchmark;
- ▼ Determine the decarbonisation trajectory of selected companies using the [ACT](#) (Assessing low Carbon Transition initiative) methodology;
- ▼ Calculate alignment of companies with the Paris Climate Agreement emissions reduction target by selecting companies with an approved [science-based target](#) (SBT) and using CDP data and scores to assess the carbon intensity of companies and the evolution per company / sector.

CDP corporate climate performance data points:

- ▼ Did you have an emissions target that was active in the reporting year? (C4.1)
- ▼ Provide details of your absolute emissions target(s) and progress made against those targets (C4.1a)
- ▼ Emissions methodology (C5)
- ▼ Emissions data (C6)
- ▼ Emissions breakdown (C7)

Action 5:
Developing sustainability benchmarks

For the description of the methodology, the benchmark provider can use:

- ▼ The list of CDP disclosing entities, their scores, and the underlying CDP scoring methodology (average score indicates the overall performance and improvement);
- ▼ The methodologies and metrics used by CDP companies, notably the methodology of the [Science Based Targets initiative](#) to determine whether a company's emissions are in line with the long-term global warming target of the Paris Climate Agreement;
- ▼ CDP's 'Clean and complete dataset' (modelled Scope 1, 2 and 3 emissions data);
- ▼ [ACT](#) (Assessing low Carbon Transition initiative);
- ▼ Climetrics' company level scores to communicate on the climate performance of their indexes more effectively.

In early 2020, CDP introduced a sector questionnaire for asset owners, asset managers, insurance companies and banks covering the climate impact of investor portfolios. Amongst others, companies in this sector are asked to disclose whether they conduct a portfolio impact analysis (C-FS14.1), asked to provide portfolio scope 3 emissions and their impacts (C-FS14.1a-c; C-FS14.2a-c) and asked whether the portfolio is aligned to a well below 2-degree world (C-FS14.3a-b).

Credit Rating Agencies Regulation	
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Action 6:
Better integrating sustainability in ratings and market research

Credit rating agencies (CRAs) analyse corporates' financial data to create risk ratings. But in order to have a more holistic view on a company's risk, non-financial data is starting to be included into CRAs' overall risk analysis and ratings. CDP data can be used by CRAs to improve their non-financial analysis in three ways: they can 1) use the comprehensive disclosure data from over 7.000 companies reporting to CDP annually 2) use CDP's modelled GHG emissions dataset or 3) use the company-level scores from Climetrics.

CDP investor signatories can use CDP's extensive corporate environmental dataset and scores to integrate environmental-related factors into investment processes and to disclose on it.

Data from investee companies' CDP disclosures covering risks and opportunities, business strategy, targets and performance, emissions methodology and engagement can be used to describe investors policies on the integration of sustainability risks in their investment decision-making process, investment advice and due diligence. This data can be combined with their own disclosure through the CDP questionnaire for the financial sector.

CDP investor signatories can use the CDP company climate and environmental raw data and scores for their own calculations and analyses of sustainability risks.

The new sector module for the financial services sector in the CDP questionnaire supports investors to disclose on their relevant climate impacts in their portfolios. Financial services companies should disclose on whether they conduct a portfolio impact analysis, on their provide portfolio scope 3 emissions and their impacts and on whether the portfolio is aligned to a well below 2-degree world.

Sustainability risk policies:

CDP investor signatories can use the CDP disclosure system to promote better disclosure of climate and environmental risks and opportunities as part of their sustainability risk policy.

Adverse sustainability impacts at entity level:

CDP investor signatories can use CDP's quantitative (historical) data on corporate GHG emissions and GHG emissions targets (incl. science-based targets) to measure the climate impact of its total portfolio (listed equity and corporate bonds).

Integration of sustainability risks:

CDP scores serve as a reference to evaluate the environmental performance of corporations and can be embedded into the risk matrix in the risk departments of investor signatories.

Sustainable financial products:

CDP company scores can be used to create new investment products, such as funds and ETFs, as well as index families.

CDP scores or underlying data points can also serve as KPIs in the growing market of sustainability-linked loans.

Climetrics helps institutional investors to:

- ▼ Integrate climate-related risk to enhance their fund selection process
- ▼ Benchmark portfolios on climate-related risks and opportunities
- ▼ Improve their own climate change disclosure and reporting

Climetrics helps asset managers to:

- ▼ Differentiate and effectively market their funds to climate-conscious investors
- ▼ Enhance their ESG analysis with innovative climate change metrics
- ▼ Develop new fund products with a Paris Agreement alignment

Climetrics helps financial advisors and banks to:

- ▼ Drive sustainability as successful business model by advancing own capacity and readiness to offer better service for sustainable clients
- ▼ Demonstrate climate action to their clients and stakeholders
- ▼ Use the Climetrics rating in their systems through the data stream application

Action 7:

Clarifying institutional investors' and asset managers' duties

Policies	CDP
Capital Requirements Regulation and Directive	
<p>Action 8: Incorporating sustainability in prudential requirements</p>	See 'Investor Disclosure Regulation'.
Solvency II Directive	
<p>Action 8: Incorporating sustainability in prudential requirements</p>	<p>Insurance companies can use CDP data and scores and Climetrics to inform their ORSA (Own Risk and Solvency Assessments).</p> <p>The CDP questionnaire for the financial sector will give insurance companies opportunity to disclose which scenario they use for long term scenario analysis.</p>
Non-Financial Reporting Directive	
<p>Action 9: Strengthening sustainability disclosure and accounting rule-making</p>	<p>Banks and insurance companies who have to report under the Non-Financial Reporting Directive, and already report information on climate change, water security and forests through CDP are well prepared for the review of the EU corporate reporting framework, especially of the Non-Financial Reporting Directive.</p> <p>Responses to CDP climate change, water security and forests questionnaires can be used to inform the non-financial statement, for materiality assessment and financial disclosures to be included in the financial report, to ensure consistency with the TCFD recommendations and the guidelines on corporate non-financial reporting.</p>
Shareholders Rights Directive II	
<p>Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets</p>	<p>CDP investor signatories can use investee companies' disclosure from climate change, water security and forests questionnaires:</p> <ul style="list-style-type: none"> ▼ Governance: Board level oversight, management responsibility, employee incentives and management process of risks and opportunities (C1, C2); ▼ Business strategy: Application and integration of scenario analyses (C3); ▼ Due diligence and engagement throughout supply chains (C12); ▼ Targets and performance: Emissions reduction targets, other climate-related targets, emissions reduction initiatives, low carbon products (C4). <p>Asset managers can use CDP data as a basis to inform institutional investors how their investment strategies comply with the arrangement made with them and to measure environmental performance of investee companies.</p>
Accounting Directive	
<p>Other: Covered by 'Fitness check on public reporting by companies'</p>	Companies can integrate their TCFD-aligned disclosure to CDP into their financial reports using the CDSB Framework.



For an overview of each policy, their scope and criteria, please see page 32: *'Information on policies under the Actions'*

B. Overview for COMPANIES

Policies	CDP
<p data-bbox="95 552 349 581">EU Taxonomy Regulation</p> <p data-bbox="95 816 422 905">Action 1: <i>Establishing an EU classification system for sustainable activities</i></p>	<p data-bbox="492 606 1490 688">Starting after the 31st December 2020, companies in the EU will be required to complete their first set of disclosures against the Taxonomy for the environmental objectives climate change mitigation and adaptation over the course of the year 2021. The disclosure will need to be published in 2022.</p> <p data-bbox="492 718 1516 800">For the EU Taxonomy to work in practice, investors will need data about company or issuer performance on the Taxonomy activity criteria. Data markets will take some time to develop as issuers and ESG research and rating companies develop their systems. The data that will be needed includes:</p> <ul data-bbox="492 833 1528 974" style="list-style-type: none"> ▾ Revenue breakdown by Taxonomy-eligible activities, or expenditure allocation to each Taxonomy-eligible activity; ▾ Performance against the technical screening criteria, or environmental management data where this is an acceptable proxy for compliance with the technical screening criteria including 'Do Not Significant Harm' assessment. <p data-bbox="492 1003 1481 1115">The EU Taxonomy will be reflected in the CDP climate change questionnaire from 2020 onwards. Companies will be able to choose the EU Taxonomy as a classification system they refer to when reporting their low carbon products and/or services that enable third parties to avoid GHG emissions (C4.5a).</p>
<p data-bbox="95 1144 324 1173">Green Bonds Standard</p> <p data-bbox="95 1251 430 1339">Action 2: <i>Creating standards and labels for green financial products</i></p>	<p data-bbox="492 1197 1503 1308">Companies can demonstrate their level of environmental stewardship through their CDP disclosure(s) and score(s). It supports their credibility and transparency when issuing green bonds and provides investors with more information and context around their climate-related governance, strategy and risk management process.</p> <p data-bbox="492 1337 1498 1392">Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under the EU Green Bonds Standard. See "Overview for Investors".</p>
<p data-bbox="95 1417 331 1446">EU Ecolabel Regulation</p> <p data-bbox="95 1474 430 1562">Action 2: <i>Creating standards and labels for green financial products</i></p>	<p data-bbox="492 1491 1474 1545">Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under the EU Ecolabel Regulation. See "Overview for Investors".</p>
<p data-bbox="95 1591 178 1621">MiFID II</p> <p data-bbox="95 1648 430 1736">Action 4: <i>Incorporating sustainability when providing financial advice</i></p>	<p data-bbox="492 1665 1474 1719">Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under MiFID II. See "Overview for Investors".</p>

Policies	CDP
Insurance Distribution Directive (IDD)	<p>Action 4: <i>Incorporating sustainability when providing financial advice</i></p> <p>Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under the Insurance Distribution Directive. See "Overview for Investors".</p>
Benchmark Regulation	<p>Action 5: <i>Developing sustainability benchmarks</i></p> <p>Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under the EU Benchmark Regulation. See "Overview for Investors".</p>
Credit Rating Agencies Regulation	<p>Action 6: <i>Better integrating sustainability in ratings and market research</i></p> <p>Company responses to CDP questionnaires can be used to provide information to credit rating agencies aiming to integrate climate and environmental aspects in ratings. See "Overview for Investors".</p>
Investor Disclosure Regulation	<p>Action 7: <i>Clarifying institutional investors' and asset managers' duties</i></p> <p>Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under the Investor Disclosure Regulation. See "Overview for Investors".</p>
Capital Requirements Regulation and Directive	<p>Action 8: <i>Incorporating sustainability in prudential requirements</i></p> <p>Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under the Capital Requirements Regulation and Directive. See "Overview for Investors".</p>
Solvency II Directive	<p>Action 8: <i>Incorporating sustainability in prudential requirements</i></p> <p>Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under the Solvency II Directive. See "Overview for Investors".</p>

Non-Financial Reporting Directive

Action 9:**Strengthening sustainability disclosure and accounting rule-making**

To help companies implement the EU Non-Financial Reporting Directive (NFRD), the European Commission published an updated version of its non-binding guidelines on reporting climate-related information in June 2019. In parallel, the Commission is also carrying out a fitness check on the broader EU framework for public reporting by companies. Over the course of 2020 the NFRD will be reviewed by the EC. The public consultation process will be finished in mid-May 2020.

The updated guidelines recommend reporting in line with the [TCFD recommendations](#). Since 2018, CDP's climate change questionnaire has been aligned with the TCFD recommendations. By reporting information through the CDP questionnaire, companies are therefore ahead of the curve in ensuring consistency with these new best practices and are thus well prepared for the review of the EU corporate reporting framework, especially of the NFRD.

The table below shows which parts of the CDP questionnaire are aligned with the TCFD recommendations and thereby also the recommended disclosures for the NFRD reporting areas:

NFRD Reporting Area	Business Model	Policies & Due Diligence	Outcome of Policies	Principal Risks & Risk Management	Key Performance Indicators
TCFD Recommendation	Strategy	Governance	Metrics & Targets	Risk Management	Metrics & Targets
CDP CC Questionnaire Module	Business Strategy (C.3)	Governance (C.1)	Targets & Performance (C.4)	Risks & Opportunities (C.2)	Emissions data (C.6)

Please also see a detailed mapping of the CDP questionnaire to the TCFD recommendations in [CDP's Technical Note on the TCFD](#)



According to the EC's [guidelines on reporting climate-related information](#), companies are recommended to disclose a range of climate-related key performance indicators. The following of these are also covered by the CDP climate change questionnaire:

Indicator section	Key Performance Indicator	Unit of measure	CDP CC questionnaire alignment
GHG emissions	Direct GHG emissions from sources owned or controlled by the company (Scope 1)	Metric tons CO2e 22	C6.1
	Indirect GHG emissions from the generation of acquired and consumed electricity, steam, heat, or cooling (collectively referred to as "electricity") (Scope 2)	Metric tons CO2e 22	C6.3
	Indirect GHG emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions (Scope 3)	Metric tons CO2e 22	C6.5
	GHG absolute emissions target	Metric tons CO2e achieved or % reduction, from base year	C4.1a
Energy	Total energy consumption and/or production from renewable and non-renewable sources	MWh	C8.2a
	Energy efficiency target	Percentage	C4.2, C9.1
	Renewable energy consumption and/or production target	% increase of the proportion of renewable energy consumed / produced from base year	C4.2, C9.1
Products & Services	Percent turnover in the reporting year from products or services associated with activities that meet the criteria for substantially contributing to mitigation of or adaptation to climate change as set out in the Regulation on the establishment of a framework to facilitate sustainable investment (EU Taxonomy). And / or Percent investment (CapEx) and/or expenditures (OpEx) in the reporting year for assets or processes associated with activities that meet the criteria for substantially contributing to mitigation of or adaptation to climate change as set out in the Regulation on the establishment of a framework to facilitate sustainable investment (EU Taxonomy).	Percentage	C4.5a

Responding to CDP on an annual basis can also be considered a due diligence process as described in NFRD reporting area 2, Policies & Due Diligence Processes, in the non-binding guidelines.

By answering questions on value chain engagement throughout the CDP forests questionnaire, module C12 of the CDP climate change questionnaire and W1.4 of the CDP water security questionnaire, companies can demonstrate that they have considered the risks and opportunities throughout their value chain in a structured and thorough manner as called for in the guidelines. Additionally, companies which are CDP supply chain members and request their suppliers to report environmental information to them go even further in fulfilling the requirements of due diligence and disclosure across entire supply chains.

Companies disclosing via CDP's water security and/or forests questionnaires will have already gathered much of the information needed to report on their natural capital dependencies as outlined in the [guidelines](#) (see pp. 14 + 16).

Policies	CDP
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Shareholders Rights Directive II	
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Action 10:
Fostering sustainable corporate governance and attenuating short-termism in capital markets

Company responses to CDP questionnaires can be used to provide information to investors who will require data for their own disclosure under the Shareholders Rights Directive II. See "Overview for Investors".

Accounting Directive	
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Using CDP's platform and the CDSB Framework can help organizations to align with the TCFD recommendations in their reporting (further information available in [CDP's Technical Note on the TCFD](#)):

- ▼ A response to **CDP** puts the information required by the TCFD into a recognized, established system that allows companies and their stakeholders to structure, analyse, compare, and trace information transparently.
- ▼ The **CDSB Framework** can then be used to transpose material information into mainstream reports and fulfil the aim of the TCFD recommendations.
- ▼ Companies can then integrate the TCFD-aligned information into their **Management Reports**.

It is considered good practice for companies to refer to their CDP response for further detail in their Management reports.

The Accounting Directive requires companies to include a description of the principal risks and uncertainties they face in their Management Report. CDP's questionnaires encourage companies to report on risks and opportunities related to climate change, forests and water security as well as the impact that these may have on the organization's businesses, strategy and financial planning. Companies can state how they define substantive financial or strategic impact on their business (questions C2.1b, W4.1a, F3.1a), provide the type of financial impact that different risks entail, a potential financial impact figure or range, an explanation of this figure/range, their management method(s) for such risks, and the cost of the specified management measure(s). For opportunities, companies can provide the strategy needed to realize the identified opportunities and the cost associated to such strategy (questions C1.2, C2.1, C2.2, C2.2a, C2.2b, C2.2c, C2.2d, C2.2e, C2.3, C2.3a, C2.3b, C2.4, C2.4a, C2.5, C2.6, W1.4a, W2.1a, W3.3, W3.3a, W3.3b, W3.3c, W3.3d, W3.3e, W7.1, F1.3, F1.4, F2.1, F2.1a, F2.1d, F3.1, F3.1b, F3.1c, F5.1, F6.8, F9.1, F9.2). For companies in the financial services sector, CDP's sector-specific questionnaire allows them to provide information on the climate-related impacts of their portfolio (Module C-FS14), as well as their portfolio's exposure to climate-, water-, and forests-related risks and opportunities (questions C-FS2.2b, C-FS2.2c, C-FS2.2d, C-FS2.2e). Specifically, for water-related (Module W4: Water-related Risks and Opportunities) and forest-related issues (Module F3: Forest-related Risks and Opportunities) companies can map their risk exposure, opportunities, and associated potential financial and/or strategic impacts within their own operations and across their value chain. Companies can also report if their mainstream financial report includes information about their response to water- and forest-related risks (questions W6.6, F4.5).

Other:
Covered by 'Fitness check on public reporting by companies'

The Management Report of a company should include a **balanced and comprehensive analysis** of the development and performance of the company, consistent with the **size and complexity** of the business. The analysis shall include both **financial and non-financial KPIs** relevant to the **business**, including information relating to **environmental and employee** matters. CDP's questionnaires can be a powerful tool to aid a company in performing a **fitness check** of their business from an environmental perspective (see Overview for Policymakers for potential implications of a fitness check).

CDP's questionnaires allow companies to **map key areas, aligned with the TCFD recommendations**. For example: Governance, Business Strategy, Risks & Opportunities, Targets & Performance, Emissions Data (see "Non-Financial Reporting Directive" section in the Overview for Companies). CDP's sector specific questionnaires provide companies with a framework for action to identify gaps in their reporting and outline the main areas a company in a specific sector should focus on.

Company's likely future development: Companies can report in CDP questionnaires if they use scenario analysis to inform their business strategy (Module C3: Business Strategy, questions W7.3, W7.3a, W7.3b). For water security, companies can share their organization's trend in water-related capital expenditure (CAPEX) and operating expenditure (OPEX) (question W7.2), as well as information on their water goals and future development plans (questions W8.1b, W8.1c). For forest-related activities, companies which currently lack board-level oversight, targets for increasing sustainable production and/or consumption of forest-risk commodities, or systems to track and monitor the origin of such commodities, can communicate their plans to change/develop these in the future (questions F4.1c, F4.2c, F6.2b, F6.3b). Companies supporting or implementing projects focused on ecosystem restoration and protection can share details of these and their progress (questions F6.11, F6.11a). And they can also inform stakeholders about any targets for increasing sustainable production and/or consumption of forest risk commodities, and progress against those targets (questions F6.1, F6.1a).

Other:

Covered by 'Fitness check on public reporting by companies'

Activities in the field of research and development: Companies may identify "Technology" as a risk or an opportunity driver, in which case CDP questionnaires allow reporting on research & development (R&D) expenditures, the development of new products or services through R&D and innovation, and investments in R&D alongside their impact and a description of these developments (questions C2.3a, C2.4a, C2.5, W4.3a, F3.2a). In terms of targets and performance, companies can report targets related to R&D investments and the associated KPIs (question C4.2b). Companies can also report on their dedicated budget for low carbon product R&D as part of the methods used to drive investment in emissions reduction activities (question C4.3c). For high impact sectors, such as coal, electric utilities, oil & gas, cement, transport, capital goods, chemicals, real estate and construction, steel, metals & mining, CDP's sector-specific questionnaires allow companies to report their investments in low carbon research and development, equipment, products, and services, as well as which part of these they consider a direct investment in the low carbon transition (questions C-CO9.6, C-EU9.6, C-OG9.6, C-CE9.6, C-TO9.6, C-TS9.6, C-CG9.6, C-CH9.6, C-CN9.6/ C-RE9.6, C-ST9.6, C-MM9.6, C-CO9.6a, C-EU9.6a, C-OG9.6a, C-CE9.6a, C-TO9.6a, C-TS9.6a, C-CG9.6a, C-CH9.6a, C-CN9.6a/ C-RE9.6a, C-ST9.6a, C-MM9.6a).

Corporate Governance Statement: In alignment with the TCFD recommendation "Governance recommended disclosure", companies can use CDP questionnaires to report the level of oversight on climate-related issues within the organization as well as the governance mechanisms into which these issues are integrated (see "Non-Financial Reporting Directive" section in the Overview for Companies). Companies can also provide details on the incentives provided for the management of climate-related issues, which can include financial incentives (*Modules C1, W6, F4: Governance*). The information reported in the "Governance" modules of CDP questionnaires could provide a proxy signal that a company is undertaking good governance practices for other topics as well.





For an overview of each policy, their scope and criteria, please see page 32: *'Information on policies under the Actions'*

B. Overview for CITIES, STATES & REGIONS

Policies	CDP
<p data-bbox="94 552 349 581">EU Taxonomy Regulation</p> <p data-bbox="94 674 422 764">Action 1: <i>Establishing an EU classification system for sustainable activities</i></p>	<p data-bbox="492 611 1498 688">The EU Taxonomy shall help to define the universe of business activities that will remain in a net-zero emissions economy in 2050 and beyond, and the types of activities that can support the transition to a low emission, climate resilient economy.</p> <p data-bbox="492 720 1526 827">Policymakers at regional and city level can use the EU Taxonomy as well as corporate data disclosed through CDP to identify low-carbon solution and corporate leaders within their boundaries. This will be important to enable city-business collaboration, much needed to create the pace and scale of low-carbon innovation.</p>
<p data-bbox="94 856 324 886">Green Bonds Standard</p> <p data-bbox="94 913 430 1003">Action 2: <i>Creating standards and labels for green financial products</i></p>	<p data-bbox="492 919 1510 997">CDP cities and regions issuing green bonds may use CDP company data and scores for further insights into an issuer's climate-related governance, risks management and strategy to supplement the project-level information.</p>
<p data-bbox="94 1029 186 1058">InvestEU</p> <p data-bbox="94 1415 332 1505">Action 3: <i>Fostering investment in sustainable projects</i></p>	<p data-bbox="492 1087 1003 1276">Cities can use CDP Matchmaker to advance the implementation of climate resilient infrastructure projects through project data disclosure and stakeholder consultation. By helping cities respond to the initiative's intake form, capacity is being built on city level to understand what kind of project data and information is required by investors.</p> <p data-bbox="492 1308 987 1444">Furthermore, matchmaker provides subscribers with information on climate resilient infrastructure projects worldwide through a specialized project dashboard, drawn from the unique CDP cities disclosure platform and our partners.</p> <p data-bbox="492 1476 1003 1801">Climate-related activities in cities are often isolated from economic development outreach, creating communication and information barriers between cities and potential investors. Matchmaker bridges this divide by working with cities to highlight projects in flood control, waste management, sustainable transportation, renewable energy, water management, and energy efficiency. Matchmaker serves as a clearinghouse for cities to showcase planned projects to the finance sector and better position them to mitigate against and adapt to climate change.</p>

Opportunity



Cities and regions can endorse the CDP disclosure request to companies to increase the data available from companies contracted to deliver sustainable infrastructure projects by local governments. There's also ample opportunity to develop city-business collaborations which can pave the way for greater corporate action on environment through aligning climate goals, increasing annual disclosure and monitoring and channel private sector funding into public projects.



For an overview of each policy, their scope and criteria, please see page 32: *'Information on policies under the Actions'*

B. Overview for POLICYMAKERS and SUPERVISORS

Policies	CDP
<p>EU Taxonomy Regulation</p> <p>Action 1: <i>Establishing an EU classification system for sustainable activities</i></p>	<p>The EU Taxonomy will be reflected in the CDP climate change questionnaire from 2020 onwards. Around 2.100 European and 8.400 companies worldwide will be able to choose the EU Taxonomy as a classification system they refer to when reporting their low carbon products and/or services that enable third parties to avoid GHG emissions.</p> <p>As a result, policymakers and supervisors accessing the CDP dataset will be able to better identify the companies engaged in EU Taxonomy-compliant activities when monitoring disclosures regarding the use of the criteria for environmentally sustainable economic activities.</p> <p>With the new CDP questionnaire for the financial sector, policymakers can already identify which financial institutions measure their portfolio impacts and which have their portfolios aligned with a 1.5C scenario.</p>
<p>Green Bonds Standard</p> <p>Action 2: <i>Creating standards and labels for green financial products</i></p>	<p>CDP investor signatories looking to invest in green bonds may use CDP company data and scores for further insights into an issuer's climate-related governance, risk management and strategy to supplement project-level information.</p> <p>Policymakers and supervisors may use CDP company scores as a proxy for improved oversight and supervision of external review providers.</p>
<p>EU Ecolabel Regulation</p> <p>Action 2: <i>Creating standards and labels for green financial products</i></p>	<p>Policymakers can use the open methodology of the Climetrics fund rating to inform green standards and labels. The methodology can support the development of minimum standards for fund labelling.</p>
<p>InvestEU</p> <p>Action 3: <i>Fostering investment in sustainable projects</i></p>	<p>Policymakers, notably the EC, could use CDP Matchmaker as an existing building block for establishing the InvestEU Portal.</p>
<p>MiFID II</p> <p>Action 4: <i>Incorporating sustainability when providing financial advice</i></p>	<p>Supervisors which provide technical advice on integrating environmental considerations and preferences into investment decisions and advisory processes may use Climetrics fund ratings to assess the climate performance of funds, thereby monitoring advisors' and financial intermediaries' capacity to meet customer preferences for climate-friendly investments.</p>
<p>Insurance Distribution Directive (IDD)</p> <p>Action 4: <i>Incorporating sustainability when providing financial advice</i></p>	<p>Supervisors which provide technical advice on integrating environmental considerations and preferences into investment decisions and advisory processes may use Climetrics fund ratings to assess the climate performance of funds, thereby monitoring advisors' and financial intermediaries' capacity to meet customer preferences for climate-friendly investments.</p>

Policies	CDP
<p data-bbox="94 548 326 575">Benchmark Regulation</p> <p data-bbox="94 810 347 894">Action 5: <i>Developing sustainability benchmarks</i></p>	<p data-bbox="492 604 1016 879">Policymakers, specifically the European Commission, can use CDP company data, scores and methodologies, notably science-based targets and ACT (Assessing low Carbon Transition initiative), to inform the minimum standards for the EU Climate Transition and EU Paris-aligned Benchmarks, to identify companies and sectors which have measurable and time-based carbon emission reduction objectives aligned with the Paris Climate Agreement target.</p> <p data-bbox="492 911 1016 1100">Policymakers and supervisors can use the Climetrics fund rating, which provides a holistic assessment of more than 15.000 funds' climate-related risks and opportunities and is used by institutional and retail investors, as well as individuals seeking an investment in Paris Climate Agreement aligned funds. The methodology is fully transparent.</p> <div data-bbox="1060 611 1549 1100" style="background-color: #e0f2f1; padding: 10px;"> <p data-bbox="1084 636 1208 663">Opportunity</p> <p data-bbox="1084 684 1430 873">Climetrics can be expanded to achieve a higher market penetration among financial intermediaries globally, thereby reaching millions of private savers and improving climate change awareness at the point-of-sale.</p> <p data-bbox="1084 905 1414 1037">The methodology could be used to assess thousands of funds for their alignment with the Paris Climate Agreement to the best extent possible.</p>  </div>
<p data-bbox="94 1136 444 1163">Credit Rating Agencies Regulation</p> <p data-bbox="94 1188 436 1272">Action 6: <i>Better integrating sustainability in ratings and market research</i></p>	<p data-bbox="492 1205 1533 1257">Policymakers and supervisors may use company responses to CDP questionnaires to assess credit rating practice and independence of scoring regarding climate and environmental aspects.</p>
<p data-bbox="94 1310 407 1337">Investor Disclosure Regulation</p> <p data-bbox="94 1415 461 1499">Action 7: <i>Clarifying institutional investors' and asset managers' duties</i></p>	<p data-bbox="492 1362 1487 1415">Policymakers can use the Climetrics fund rating as part of their assessment of the impact of the new investor disclosure regulation by monitoring the performance of their national funds on a 1 to 5 scale.</p> <p data-bbox="492 1446 1516 1551">Supervisors may use CDP company data, scores and methodologies, notably science-based targets and ACT (Assessing low Carbon Transition initiative), to inform regulatory technical standards specifying the content, methodologies and presentation of information in relation to sustainability indicators and sustainability investment objectives.</p>
<p data-bbox="94 1583 428 1635">Capital Requirements Regulation and Directive</p> <p data-bbox="94 1661 396 1745">Action 8: <i>Incorporating sustainability in prudential requirements</i></p>	<p data-bbox="492 1677 1533 1730">Supervisors may use CDP company data, scores and methodologies when defining criteria for ESG-related risks, physical risks, and transition risks related to the transition to a sustainable economy.</p>
<p data-bbox="94 1778 302 1806">Solvency II Directive</p> <p data-bbox="94 1831 396 1915">Action 8: <i>Incorporating sustainability in prudential requirements</i></p>	<p data-bbox="492 1835 1533 1908">The CDP questionnaire for the financial sector will give insurance companies the opportunity to disclose which scenario they use for long term scenario analysis. Policymakers and supervisors may use this information when assessing economic and financial risks.</p>

CDP data can be used to report under legislative reporting requirements and against frameworks, such as the CDSB Framework. CDP's dataset is the world's largest corporate climate and environmental dataset. CDP's standardized questionnaires can be the bases for a non-financial reporting standard on climate and natural capital as they ensure consistent and comparable information on one platform that allows aggregation and comparability across companies and jurisdictions.

CDP data cover the E (Environmental) among the ESG reporting requirements, and the standardized CDP questionnaires are aligned with the recommendations of the TCFD.

CDP data is used by companies to inform their non-financial statements and integrate material non-financial information into financial reports (for example using the CDSB Framework), leading to consistent data coming from standardized questionnaires.

CDP corporate responses are used by investors to engage with Investor Relations at investee companies, to determine sustainability performance of portfolios as well as other financial products and services.

Investors can use CDP corporate disclosure for their own disclosure under the new disclosure requirements in the EU.

Climetrics is a flagship business case for mainstreaming sustainable finance and the underlying data that enable the shift of capital at scale towards a sustainable, net-zero carbon global economy. It can help understanding the links between transparency on climate-related risks of asset managers, institutional investors, financial advisors and banks, and the corporate disclosure and inform the fitness-check and revision of corporate reporting regulation.

Action 9:

Strengthening sustainability disclosure and accounting rule-making

Opportunity



Ministries and supervisors can endorse the CDP disclosure request and platform to support quality and quantity of corporate non-financial climate and environmental information.

Supervisors can use CDP reports for ensuring consistency at EU and even global level regarding content, presentation of information and pre-assessment of materiality of companies. Supervisors can benefit from consistent reports across the different types of report preparers. In addition, supervisors can compare mandatory disclosures against information disclosed publicly to CDP. The CDP questionnaire for the financial sector will enforce consistent reporting across financial report preparers.

Opportunity



The review of the NFRD offers the opportunity for improving mandatory reporting:

- ▼ Strengthen 'inside-out' disclosures by mandating all companies to disclose long-term transition plans towards a temperature goal in line with the latest science (IPCC), water-secure and deforestation-free scenarios, and dedicated strategies, approaches and timelines for pursuing climate and natural resources neutrality.
- ▼ Apply TCFD to a broader perspective of natural capital and specify "environmental matters" to include climate mitigation and adaptation, water security and pollution, and commodity-driven deforestation and land use as a minimum, possibly referencing the environmental objectives of the EU Taxonomy Regulation.
- ▼ Strengthen 'outside-in' governance disclosures by incorporating TCFD recommended disclosures Governance into the 'corporate governance statement' in Article 20 and in the non-financial statement in 19a and 29a of the Accounting Directive
- ▼ Strengthen linkages between non-financial and financial information and between the 'inside-out' and 'outside-in' perspective to ensure better disclosure of non-financial and financial impacts with a forward-looking perspective by incorporating TCFD recommended disclosures (climate and natural capital) on Strategy, Risk Management, Metrics and Targets into the NFRD
- ▼ Make reporting in the management report mandatory by removing the exemption to allow the non-financial statement to be reported outside the management report

Policies

CDP

Shareholders Rights Directive II

Action 10:

Fostering sustainable corporate governance and attenuating short-termism in capital markets

Supervisors may use corporate disclosure from climate change, water security and forests questionnaires in regard to Governance (board level oversight, management responsibility, employee incentives and management process of risks and opportunities) when monitoring institutional investors' and asset managers' disclosures.

Accounting Directive

Other:

Covered by 'Fitness check on public reporting by companies'

Companies can integrate their TCFD-aligned disclosure to CDP into their financial reports using the CDSB Framework.

Opportunity



- ▼ Remove paragraph 4 of Articles 19a and 29a of the Accounting Directive, which allows material information required for the non-financial statement to be reported outside the management report up to 6 months after its publication;
- ▼ Incorporate TCFD recommended disclosures a) and b) on governance into the 'corporate governance statement' in Article 20 of the Accounting Directive. This could include examining opportunities for greater alignment between existing corporate governance disclosure requirements and the TCFD's recommendations and how conformance with one could be treated as satisfying the requirements of the other;
- ▼ Incorporate all 11 TCFD recommended disclosures and consider how better linkages between financial and non-financial information can be made in the Accounting Directive, drawing on the essential approach of the TCFD.

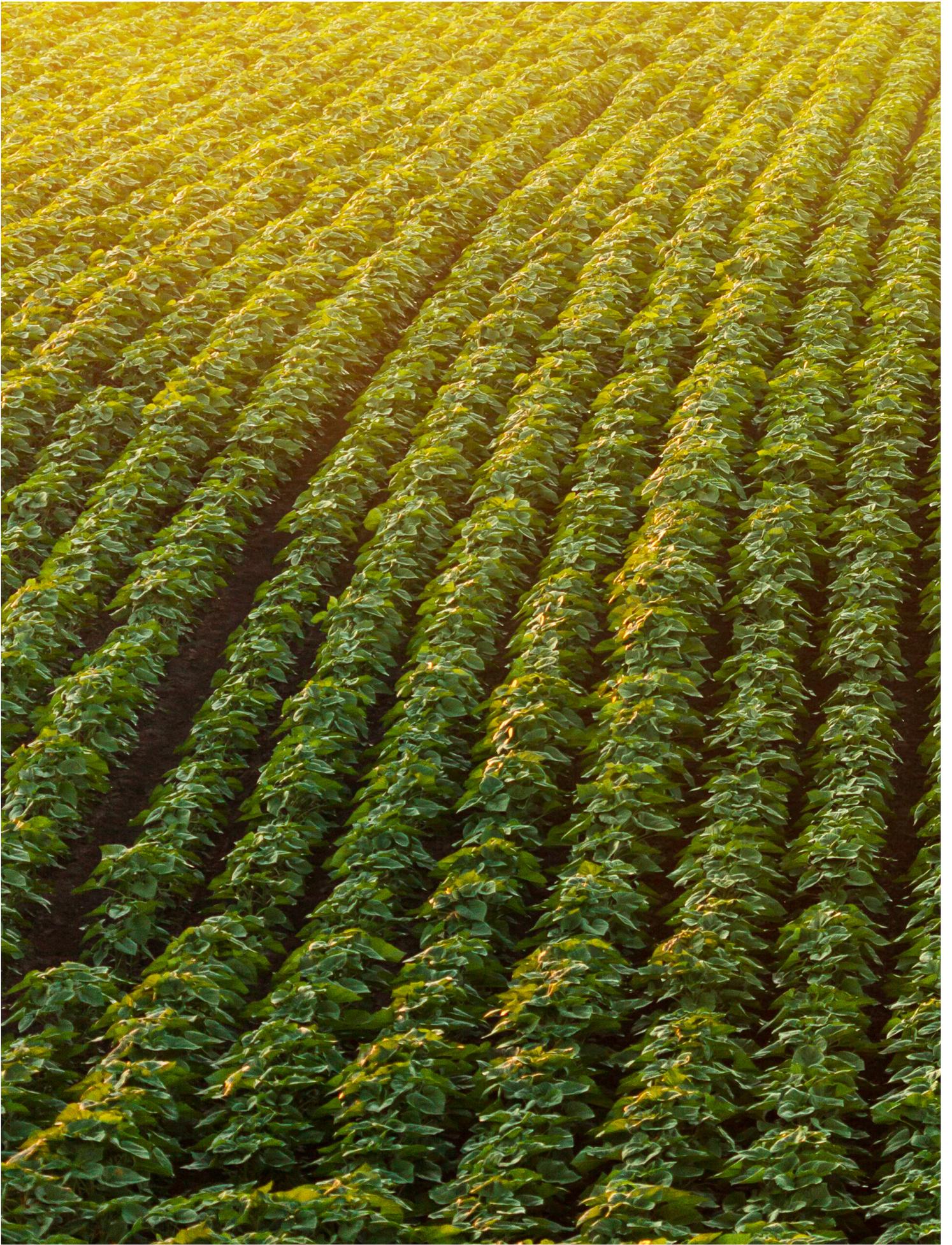
EXCURSION: DATA PROVIDED BY CDP FOR CONSTRUCTION OF CLIMATE TRANSITION OR PARIS ALIGNED BENCHMARKS

With the benchmark regulation coming into force, financial institutions can use the regulation to build climate-transition and Paris-aligned benchmarks. CDP data can support the financial company in several instances to fulfil the requirements set out by the regulation.

Requirements	Coverage	Datapoints	CDP comments
<p>1</p> <p>Minimum Scope 1+2(+3) carbon intensity (CO₂/m€ Enterprise Value) reduction (for equity instruments) or absolute reduction (for fixed-income corporate instruments) compared to investable universe of:</p> <ul style="list-style-type: none"> ▼ 30% for CTB ▼ 50% for PAB <p>Needs to be updated on a yearly basis</p>	Yes	<p>CDP GHG Emission Dataset</p> <p>Enterprise Value not provided</p>	<p>CDP publishes GHG data annually covering Scope 1,2 and 3 emissions of approximately 5,500 corporate issuers.</p> <p>The index creator can use the total GHG Value and divide it by the Enterprise Value. CDP does not provide the Enterprise Value.</p>
<p>2</p> <p>Scope 3 phase-in</p> <ul style="list-style-type: none"> ▼ at least immediately consider Scope 3 for Energy & Mining ▼ within 2 years include transportation, construction, buildings, materials and industrial sectors ▼ within 4 years all sectors 	Yes	CDP GHG Emission Dataset	CDP GHG Emission Dataset already takes into account all sectors' scope3
<p>3</p> <p>Baseline Exclusions (only for PAB) (Controversial weapons, tobacco, societal norms violator UNGC and OECD)</p>	No	UNGC controversies	Not provided by CDP
<p>4</p> <p>Activity Exclusion (only for PAB)</p> <ul style="list-style-type: none"> ▼ Coal (1%+ revenues) ▼ Oil (10%+ revenues) ▼ Natural Gas (50%+ revenues) ▼ Electricity producers with carbon intensity of lifecycle GHG emissions higher than 100gCO₂e/kWh (50%+ revenues) 	Yes	On-demand analysis	<p>Companies are assigned to a CDP Activity based on BICS. Activities to be excluded can be identified by CDP based on revenues.</p> <p>To identify companies deriving 50% or more of their revenues from electricity generation with a GHG intensity of lifecycle GHG emissions above 100 gCO₂e/kWh*, CDP uses the the median lifecycle GHG emissions value in Figure 7.6 (IPCC, 2014).</p>

Requirements		Coverage	Datapoints	CDP comments
5	<p>Year-on-year self-decarbonisation of the benchmark (At least 7% on average per annum)</p> <p>Weight increase shall be considered for:</p> <ul style="list-style-type: none"> ▼ companies publishing consistently and accurately their scope 1, 2 and 3 GHG emission ▼ companies have reduced their GHG intensity or absolute GHG emission by 7% per annum for 3 consecutive years 	Yes	<p>Forward looking: CDP Climate Change questionnaire (C4 Targets)</p> <p>Backward looking: CDP GHG Emission Dataset but no EV</p>	<p>Forward looking:</p> <ul style="list-style-type: none"> ▼ Identify companies with a Science Based Target committed or approved by the SBT Initiative ▼ Identify companies with emission reduction targets in CDP Climate Change Questionnaire. <p>Backward looking:</p> <ul style="list-style-type: none"> ▼ Measure if 7% carbon intensity reduction is achieved YoY with CDP GHG Emission Dataset ▼ 4 years of historical data available ▼ it contains a quality assessment score, helpful to determine the accuracy of disclosure
6	<p>Exposure constraints (Minimum exposure to sectors highly exposed to climate change issues shall be at least equivalent to the exposure of the underlying investable universe to those sectors)</p>	Yes	On-demand analysis	Ratio analysis of portfolio possible on demand
7	<p>Disqualification from label if</p> <ul style="list-style-type: none"> ▼ the target of 7% decrease is not achieved in a given year and the target miss is not compensated in the following year ▼ the target is not achieved for 2 consecutive years ▼ the target is not achieved on three occasions in any consecutive 10-year period. 	Yes	CDP GHG Emission Dataset (but no EV)	Monitor the 7% decarbonisation trajectory by calculating weighted average GHG intensity at index level.

Requirements	Coverage	Datapoints	CDP comments
<p>Min. disclosure requirements</p> <p>Currency and interest rate benchmarks as out of scope for any ESG disclosure requirement.</p> <p>For Disclosure, please refer to Table 3: ESG factors to be disclosed by asset class in the Final TEG report.</p>	Yes, for Environmental data only	Link to methodologies on demand	<p>Environmental data only at CDP. All CDP methodologies are available and transparent</p> <p>Not available for Social and Governance disclosures</p>
Environmental disclosures			
Average Environmental rating of index (E component of ESG rating) (relative to securities covered by ESG research)	Yes	CDP Scores or Climetrics score	CDP climate, water and forests scores can be used to rate the Environmental components of an index. Alternatively, Climetrics can provide a 0 to 100 environmental score
High emitting sector exposure (% of total weighting)	Yes	On demand analysis	See Point 6, "Exposure constraints" above
Carbon intensity	Yes	CDP GHG Emission Dataset (but no EV)	The GHG Modelled Dataset covers 5500 companies' scope 1, 2 and 3
Reported vs estimated emissions (%)	Yes	CDP GHG Emission Dataset	The GHG Modelled Dataset indicates whether the emission is reported or modelled
Exposure to climate-related physical risks	Yes	CDP Climate Change Questionnaire C2 Risks	Reported in the section C2 Risks of the Climate Change questionnaire .
<p>By 31 December 2021, all benchmarks should include an explanation of how their methodology aligns with the target of carbon emission reductions or attains the long-term global warming target of the Paris Climate Agreement:</p> <p>Degree of alignment of Benchmark:</p> <p>i) specify to which temperature scenario – consistent with the objectives of the Paris Climate Agreement or not – the benchmark portfolio is aligned,</p> <p>ii) provide details regarding the methodology used for the measurement of the alignment with a temperature scenario,</p> <p>iii) provide details (name and provider) regarding the scenario used, and,</p> <p>iv) provide the link to the scenario used.</p>	Yes	June 2020	CDP, in partnership with the Science Based Target Initiative, is currently developing a public methodology to translate corporate emission reduction targets into temperature scores (in °C). This methodology can be applied to measure the global warming potential of a portfolio or index.



THE SUSTAINABLE FINANCE ACTION PLAN AND THE EUROPEAN GREEN DEAL

In December 2019, the EU published a proposal for a roadmap, the European Green Deal (EGD), for climate neutrality in 2050. The EGD covers all sectors of the economy, yet a clear focus and defined enabler of the roadmap is sustainable finance. To drive private sector investments, the European Commission has proposed a renewed sustainable finance strategy. The goal of further mainstreaming of sustainable investment and finance is pointed out by the European Commission in the EGD. Both the investment and the finance side of this policy area is outlined by the EGD to be covered in the subsequently published European Green Deal Investment Plan (EGDIP), also referred to as the Sustainable Europe Investment Plan (SEIP). In the SEIP the European Commission outlines more concrete action on how the EU can fund investments towards the transition. This is key towards a successful implementation of the EGD. Thus, the EGD is an acceleration of the efforts made by the EC to drive the sustainable finance agenda. The EC published the SEIP in January 2020 and a renewed sustainable finance strategy is expected for autumn 2020.

The Sustainable Europe Investment Plan

The EC aims to leverage about €1 trillion over the next decade. Investments will be financed through the EU budget, national budgets and the private sector, and should be allocated to the transformation of the EU economy.

About 50% will be generated through the EU budget. This is to be achieved by dedicating 25% of the Multiannual Financial Framework to climate ambition.

The other 50% should mainly be leveraged through private and public investments, supported by guarantees from the InvestEU Fund, partially through the EIB. The EIB will function as a climate bank to the EU, already announcing it will dedicate 50% of its financing, increased gradually until 2025, to the climate and environmental transformation.

Some additional funds for the Sustainable Europe Investment Plan will come from the Just Transition Fund, financed by the EU budget and Member States, and the Innovation and Modernisation funds, financed by EU ETS revenues.

To show and discuss progress, the EC will hold an annual Sustainable Investment Summit, involving all relevant stakeholders.

The renewed sustainable finance strategy

As prescribed in the EGD, the EC is planning to develop a renewed sustainable finance strategy by autumn 2020. The public consultation period for the renewed strategy lasts from April to July 2020. This strategy will be a renewed roadmap to drive sustainable finance in the EU with key actions to implement the EGD.

CDP and the EGD

For the European Green Deal to succeed non-state actor climate action is irreplaceable. CDP already engages on multiple of the actions announced in the EGD, thus positioning its stakeholders well for upcoming legislative changes and business opportunities. Specifically, yet not exclusively, CDP can support its stakeholders in the implementation of these EGD action areas:

- Raise ambition on climate action
- Promote clean energy, industry, mobility
- Reduce water pollution and deforestation throughout the value chain
- Strengthen the sustainable finance agenda
- Non-financial reporting

KEY POLICIES AND MEASURES IN THE EUROPEAN GREEN DEAL ON SUSTAINABLE FINANCE

Several key policies and measures in the area of sustainable finance will be published over the course of 2020-2021:

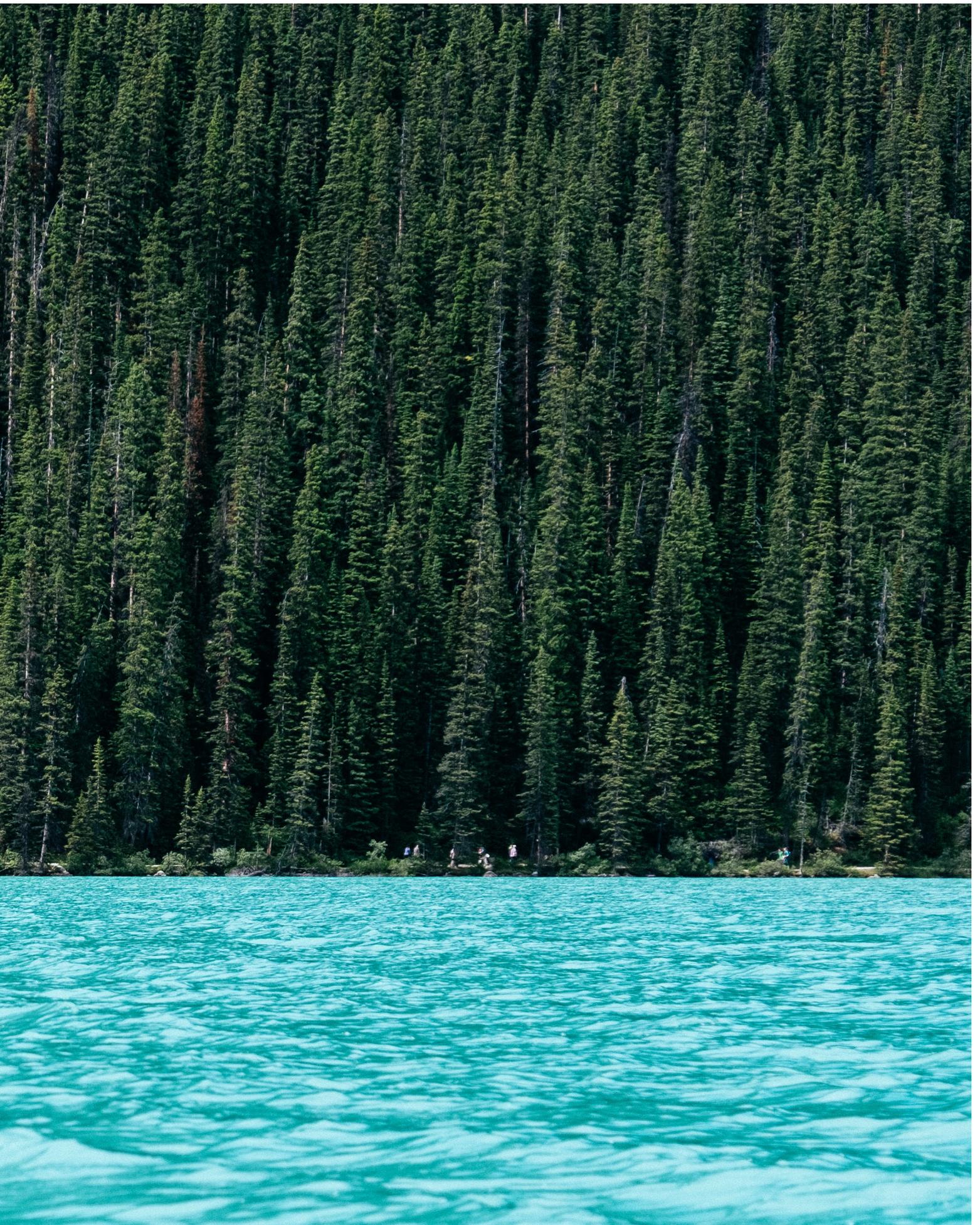
Actions listed in the European Green Deal related to sustainable finance agenda	Timeframe
Proposal for a Just Transition Mechanism, including a Just Transition Fund, and a Sustainable Europe Investment Plan	January 2020
Initiatives to screen and benchmark green budgeting practices of the Member States and of the EU	From 2020
Renewed sustainable finance strategy	Autumn 2020
Review of the Non-Financial Reporting Directive	2020

Other related actions expected in 2020	Expected timeframe
Public consultation on the review of the NFRD	February - June 2020
Public consultation on renewed sustainable finance strategy	April – July 2020
Establish an EU Green Bond Standard	2020
Delegated acts on the climate change objectives of the EU Taxonomy	2020
Delegated acts on the other environmental objectives of the EU taxonomy	Q4 2021



Adapted from European Commission communication.





INFORMATION ON POLICIES UNDER THE ACTIONS

#1  EU Taxonomy Regulation	#2  Green Bond Standard & EU Ecolabel Regulation	#3  InvestEU Programme
#4  MiFID II & IDD	#5  Benchmark Regulation	#6  Credit Rating Agencies Regulation
#7  Investor Disclosure Regulation	#8  CRR/CRD & Solvency II Directive	#9  NFRD & IFRS
#10  Shareholders Rights Directive II	#OTHERS  Covered by 'Fitness check on public reporting by companies'	

#1

Establishing an EU classification system for sustainable activities

Policy

Framework to facilitate sustainable investment (EU Taxonomy Regulation).

In December 2019, the Council and the EP reached an agreement on the taxonomy regulation. In March 2020, the TEG published the final report on the EU taxonomy with additional recommendations and technical guidance. This report and its recommendations will support the EC in developing the delegated acts to further the taxonomy regulation.

The taxonomy regulation will become effective from 31st December 2020 onwards.

Description

This Regulation establishes the criteria for determining whether an economic activity is environmentally sustainable for the purposes of establishing the degree of environmental sustainability of an investment.

The EU Taxonomy shall be a list of economic activities with performance criteria for their contribution to six environmental objectives. The EU Taxonomy is

- ▼ A list of economic activities and relevant criteria
- ▼ Flexible to adapt to different investment styles and strategies
- ▼ Based on the latest scientific and industry experience
- ▼ Dynamic, responding to changes in technology, science, new activities and data

Purpose

To provide clarity and transparency on environmental sustainability to investors, financial institutions, companies and issuers thereby enabling informed decision-making in order to foster investments in environmentally sustainable activities.

- ▼ **Provide clarity via a common language** for investors, issuers, policymakers and regulators. Investors can use it to express their expectations for their investment decisions. Companies and project developers shall use it to plan and raise finance, developing the pipeline of sustainable investment opportunities. All shall be able to use it to avoid unintended greenwashing.
- ▼ **Help translate commitments to the Paris Agreement and the SDGs** for investors. The Taxonomy shall bridge the gap between international goals and investment practice, signalling the types of activities that are consistent with the low carbon transition, adaptation and other environmental objectives.
- ▼ **Save time and money for investors and issuers.** The criteria have been developed by environmental and industry experts and shall reference the latest EU and international thinking. This shall allow investors to focus on understanding the risk and return of an investment.
- ▼ **Support different investment styles and strategies.** Investors marketing environmentally sustainable funds can invest in Taxonomy-eligible activities, engage companies on how they are progressing towards Taxonomy thresholds, or provide their own explanation for how they will achieve the fund's goals. Investing in Taxonomy-eligible activities is not mandatory.
- ▼ **Put environmental data in context.** Investors need to understand which companies are contributing to the low carbon transition and which are building resilience to climate change, not just carbon footprints.
- ▼ **Avoid reputational risks.** By screening out economic activities that undermine broader environmental and climate objectives, investors shall be enabled to avoid reputational risk and to ensure that their strategy is robust.
- ▼ **Deepen the conversation.** By focusing on economic activities, the Taxonomy provides a tool to understand company business models. Some business lines may be delivering on sustainability objectives, while others may not. This shall allow a sophisticated discussion around strategy and consistency with sustainability objectives.
- ▼ **Reward companies.** A science and evidence-based framework to define what is environmentally sustainable provides companies with clear direction. It shall help companies access finance for R&D while rewarding those undertaking environmentally sustainable activities.

Scope

- ▼ Member States or the EU when adopting measures or setting requirements on market actors in respect to financial products or corporate bonds that are marketed as environmentally sustainable.
- ▼ Financial market participants worldwide offering financial products in the EU as environmentally sustainable investments or as investments having similar characteristics.
- ▼ Undertakings subject to the obligation to publish a non-financial statement or a consolidated non-financial statement for the annual financial statements.

Financial market participants:

- ▼ An insurance undertaking which makes available an insurance-based investment product (IBIP)
- ▼ An alternative investment fund manager (AIFM)
- ▼ An investment firm which provides portfolio management
- ▼ An institution for occupational retirement provision (IORP) or a provider of a pension product
- ▼ A manager of a qualifying venture capital fund
- ▼ A manager of a qualifying social entrepreneurship fund
- ▼ A UCITS management company

Users and users of the Taxonomy

	Disclosure obligations	Optional additional uses
Asset Management	<p>UCITS funds:</p> <ul style="list-style-type: none"> • equity funds • exchange-traded funds (ETFs) • bond funds <p>Alternative Investment Funds (AIFs):</p> <ul style="list-style-type: none"> • fund of funds • real estate funds • private equity or SME loan funds • venture capital funds • infrastructure funds <p>Portfolio management</p>	
Insurance	Insurance-based investment products (IBIP)	Insurance
Corporate & Investment Banking	<ul style="list-style-type: none"> • Securitisation funds • Venture capital and private equity funds • Portfolio Management • Indices funds 	<ul style="list-style-type: none"> • Securitisation • Venture capital and private equity • Indices • Project finance and corporate financing
Retail banking		<ul style="list-style-type: none"> • Mortgages • Commercial building loans • Car loans • Home equity loans

Exceptions: Financial market participants that provide explanations, supported by reasonable proof to the satisfaction of the relevant competent authorities, that the economic activities funded by its financial products do not have any significant sustainability impact. Such information shall be provided in their prospectus.

Criteria

An economic activity is considered environmentally sustainable where it fits the following criteria: (a) the economic activity contributes substantially to one or more of the environmental objectives; (b) it does not significantly harm any of the environmental objectives; (c) it is carried out in compliance with the minimum safeguards; (d) the economic activity complies with technical screening criteria. All three performance thresholds must be met. The technical screening criteria for the performance thresholds will be reviewed by the EC.

Environmental objectives:

- ▼ Climate change mitigation and/or climate change adaptation
- ▼ Sustainable use and protection of water and marine resources
- ▼ Transition to a circular economy including and waste prevention and recycling
- ▼ Pollution prevention and control
- ▼ Protection and restoration of biodiversity and ecosystems

Disclosure requirements	<p>Under the Taxonomy regulation, institutional investors and asset managers marketing investment products as environmentally sustainable would need to explain whether, and how, they have used the Taxonomy criteria. Investors could state that they are seeking to invest in Taxonomy-eligible activities or disclose their own preferred approach to determine that their investment is environmentally sustainable.</p> <p>This disclosure obligation is intended to align with the requirements of the Investor Disclosure Regulation. The regulation proposes that:</p> <p>a. fund managers and institutional investors should disclose to what extent the criteria for environmentally sustainable economic activities are used to determine the environmental sustainability of the investments (incl. environmental objectives and details on the respective financing proportions of enabling and transition activities). b. large companies should report on their turnover, Capital Expenditure (CapEx) or Operating Expenditure (OpEx), that are associated with environmentally sustainable economic activities. (Note that disclosure of these financial KPIs is also recommended in the non-binding guidelines supplement for climate-related disclosures of the NFRD).</p> <p>Additionally, financial market participants offering financial products or corporate bonds shall disclose the relevant information allowing them to establish whether the products they offer qualify as environmentally sustainable investments pursuant to the criteria. The do no harm principle must be applied. Disclosures should be accurate, fair, clear, not misleading, simple and concise.</p> <p>Where financial market participants consider that an economic activity for which technical screening criteria have not been established yet, should be considered environmentally sustainable, they shall inform the EC.</p> <p>The Taxonomy is not mandatory for investment decisions and investors would be free to explain their alternative methodologies in their disclosures. For each relevant product, investors would disclose the proportion of investments funding Taxonomy-eligible activities (or that would eligible under an alternative methodology).</p> <p>The EC plans to adopt a delegated act outlining disclosure requirements and their application by 1 June, 2021. The differences between non-financial and financial companies will be considered.</p>
Place of disclosure / reporting	<p>Place of disclosure is defined by Investor Disclosure Regulation. Undertakings subject to the obligation to publish a non-financial information statement should include the taxonomy reporting in their non-financial statement or consolidated non-financial statement information.</p>
Verification	<p>The EU Taxonomy Regulation does not include a verification obligation on the investor. Investors may also rely on existing environmental due diligence processes and company's auditing or verification systems. In 2022, the EC is planning to reassess the need for verification for investors under the taxonomy regulation. Companies reporting on the taxonomy under the current NFRD do not need to verify their disclosure, however this might change in the upcoming NFRD review.</p>
Supervisory Authorities	<p>Member States, in close cooperation with the relevant ESA, shall monitor the disclosure regarding the use of the criteria for environmentally sustainable economic activities. Relevant ESA shall monitor the market for financial products. Member States shall also be responsible to establish measures and penalties for infringements of the regulation.</p>

Outlook

This Regulation entered into force 20 days after its publication in the Official Journal of the EU and is fully binding and directly applicable in all Member States. In two years the EC will publish a first assessment report to review the performance and progress of the regulation. This shall afterwards continuously be conducted every three years. The final report of the TEG (March 2020) leaves the option open, whether a brown taxonomy could be designed. Also, the report outlines core design features of the taxonomy, which could be replicated by other regions outside the EU, thus showing interest in future international alignment of possible similar regulations.

Over the course of 2020, the EC shall establish a Platform on sustainable finance with representatives from EEA, ESAs, EIB, European Investment Fund, private stakeholders, civil society, academia, with mandate to:

- advise the EC on the technical screening criteria and the possible need to update those criteria;
- analyse the impact of the technical screening criteria in terms of potential costs and benefits of their application;
- assist the EC in analysing requests from stakeholders to develop or revise technical screening criteria for a given economic activity;
- advise the EC insofar appropriate on the possible role of sustainability accounting and reporting standards in supporting the application of the technical screening criteria;
- monitor and report regularly to the EC on capital flows towards sustainable investment;
- advise the EC on the possible need to develop further measures to improve data availability and quality;
- advise the EC on the possible need to amend this Regulation;
- consult external stakeholders, including key representatives of the relevant industry sector;
- advise the EC on the evaluation and development of sustainable finance policies;
- advise the EC on addressing other sustainability objectives.

The Platform shall include many stakeholder views, be based on expert views and be transparent in its operation. A Member States Expert Group shall give advice to the EC on the platforms operation and technical criteria.

The TEG is extended until the Platform is operational, latest by the end of September 2020.

Officially the TEG has completed its work on the taxonomy, despite being prolonged for the Sustainable Finance platform. Further implementation of the taxonomy will be conducted through delegated acts by the EC.

1st June 2020: Draft regulatory technical standards of criteria and use of environmental criteria on climate change mitigation and adaptation.

September 2020: Operational set up of the Sustainable Finance Platform planned the latest by end of September 2020, yet anticipated earlier

End of 2020: Publication of the technical screening criteria for climate change mitigation and adaptation.

1st June 2021: Draft regulatory technical standards of criteria and use of environmental criteria on water and marine resources, circular economy, pollution, and biodiversity and ecosystems.

1st June 2021: Adoption of delegated act on disclosure obligation for non-financial and financial companies.

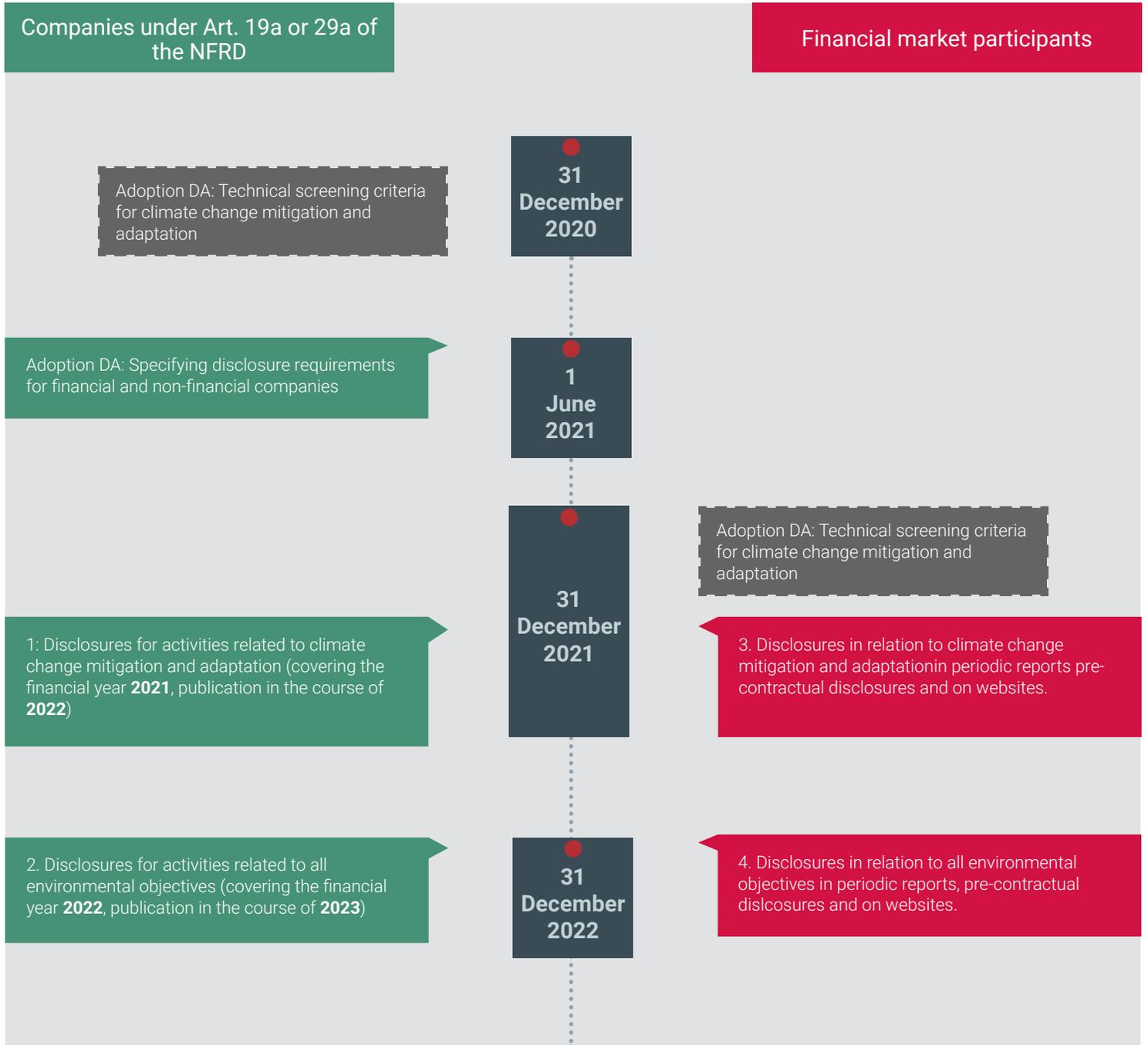
31st December 2021: Financial market participants will be required to complete their first set of disclosures against the Taxonomy for the environmental objectives climate change mitigation and adaptation.

End of 2021: Technical screening criteria for water, a circular economy, pollution prevention and control, and hghgprotection of ecosystems.

31st December 2022: Expanded set of disclosures covering all six environmental objectives.

In 2 years after the entra into force the EC will publish a report on the application of the taxonomy regulation. This is repeated every three years thereafter.

TIMELINE OF THE IMPLEMENTATION OF THE EU CLASSIFICATION SYSTEM



#2

Creating standards and labels for green financial products

Policy

Green Bond Standard: Not yet linked to any policy. Options are Taxonomy Regulation and Prospectus Regulation.

In March 2020, the TEG subgroup published the “EU Green Bond Standard Usability Guide”.

From mid-March 2020, the EC is opening a public consultation process over the course of three months. This consultation process will be partially dedicated to a possible legislative initiative on an EU Green Bond Standard (GBS) and is part of the new Sustainable Finance Strategy, proposed in the European Green Deal. The basis for the consultation on the GBS will be the draft model of the EU GBS, developed by the TEG.

Description

EU standards and labels for sustainable financial products shall protect the integrity of and trust in the sustainable financial market, as well as enable easier access for investors seeking those products.

It is set up as a voluntary standard proposed to issuers and aligned with best practices in the market.

The usability guide proposes the GBS should have four key components:

1. Alignment with the EU Taxonomy (six environmental objectives, Do no significant harm, minimum safeguards and technical screening criteria), with few exemptions for specific cases;
2. A Green Bond Framework by the issuer (Why, What, How);
3. Allocation and Impact Reporting; and
4. External verification by an approved verifier.

Purpose

Drawing on current best practices, an EU standard accessible to market participants shall facilitate channelling more investments into green projects and would constitute a basis for the development of reliable labelling of financial products. Standardization and verification help reduce costs and increases transparency in the market, including providing clarification on what is green.

Scope

- Any organization with bonding authority
- ABS (Asset-backed Security)
- Development banks
- Financial corporates
- Government-backed entities
- Loans
- Local governments
- Non-financial corporates
- Sovereigns

Criteria

Green Projects can include:

- Eligible green assets (including physical assets and financial assets such as loans), as well as the share of the working capital that can reasonably be attributed to their operation, and, for the avoidance of doubt, including potentially both tangible and intangible assets
- Eligible green capital expenditures
- Eligible green operating expenditures related to improving or maintaining the value of eligible assets
- Eligible green expenditures for sovereigns, sub-sovereigns and public agencies

Green Projects would be required to be aligned with the EU Taxonomy while acknowledging that it would be rolled out progressively over time and would be designed to identify a broader spectrum of sustainable activities than only assets. A due diligence process could be put in place for issuers and verifiers to facilitate compliance with the criteria.

Place of disclosure / reporting

Not yet linked to any policy. Place of reporting could be as under EU Taxonomy Regulation or Prospectus Regulation.

The mandatory Allocation and the voluntary Impact Reports should be made easily accessible, thus the TEG usability guide from March 2020 suggests that the Reports shall be published on the issuer’s website or any other communication channel.

Verification

The TEG usability guide from March 2020 lays out that verification becomes mandatory and requires the accreditation of external reviewers. Part of the verification will be alignment with the EU Taxonomy and the Allocation Report. ESMA could be mandated by the EC to make a proposal for a system to give accreditation to verifiers of green bonds.

Disclosure requirements

The draft standard of the TEG foresees inclusion of the use of proceeds to be specified in the legal documentation. The issuer shall indicate the following elements in their GBF:

- ▶ The environmental objectives of the EU Green Bond or EU Green Bond programme and how the issuer's strategy aligns with such objectives, as well as their rationale for issuing;
- ▶ The process by which the issuer determines how Green Projects align with the EU Taxonomy and, if applicable, qualitative or quantitative technical screening criteria and with the support of an accredited verifier. Issuers are also encouraged to disclose any green standards or certifications referenced in project selection;
- ▶ A description of the Green Projects to be financed or refinanced by the EU Green Bond. In case where the Green Projects are not identified at the date of issuance, the issuer shall describe, where available, the type and sectors of the potential Green Projects. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, information can be presented in generic terms or on an aggregated portfolio basis;
- ▶ The process for linking the issuer's lending or investment operations for Green Projects to the EU Green Bond issued. The issuer shall track the amount allocated to Green Projects in an appropriate manner until such amount equals the net proceeds and document the allocation through a formal internal process;
- ▶ Information on the methodology and assumptions to be used for the calculation of key impact metrics: (i) as described in the EU Taxonomy, where feasible; and (ii) any other additional impact metrics that the issuer will define;
- ▶ A description of the reporting (e.g. envisaged frequency, content, metrics).

The EU Disclosure Regulation does not directly affect issuers of green bonds, as green bonds are not a financial product as defined in the Disclosure Regulation.

Based on existing market practice two types of reporting would be required under the EU-GBS: Allocation Reporting and Impact Reporting.

Reporting shall include:

- ▶ Basic information: A statement of alignment with the EU-GBS;
- ▶ Scope and Approach: Detailing content of the reporting;
- ▶ Allocation: A breakdown of allocated amounts to Green Projects at least on sector level – however more detailed reporting is encouraged; the regional distribution of Green Projects (recommended on country level); and
- ▶ The regional distribution of Green Projects (recommended on country level).

Impact: environmental impacts and objectives::

- ▶ A description of the Green Projects;
- ▶ The environmental objective pursued with the Green Projects;
- ▶ A breakdown of Green Projects by the nature of what is being financed (assets, capital expenditures, operating expenditures, etc.);
- ▶ The share of financing;
- ▶ Information and, when possible, metrics about the projects' environmental impacts, which needs to be in line with the commitment and methodology described in the issuer's GBF;
- ▶ If it has not been already detailed in the GBF, information on the methodology and assumptions used to evaluate the Green Projects impacts.

The Allocation reporting should be executed on an annual basis. A verification is only needed for the final allocation report. The Impact reporting, on a voluntary basis, only needs to be undertaken once for a green bond.

Supervisory Authorities

The TEG has analysed four different options for improved oversight and supervision of external review providers through accreditation to contrast and compare their respective benefits and drawbacks. These four options include:

- ▶ Centralised regime for authorisation and supervision by ESMA;
- ▶ Decentralised regime, involving national competent bodies (national regulators, national ecolabelling authorities) in EU Member States;
- ▶ Do nothing, i.e., status quo and/or de-facto harmonisation with ISO 14030;
- ▶ Market-based regime with EC participation.

Outlook

Within the framework of the Prospectus Regulation, the EC will specify the content of the prospectus for green bond issuances to provide potential investors with additional information. March-April 2020: Public consultation process on the interim report and the preliminary recommendations on EU Green Bonds.

#2

Creating standards and labels for green financial products

Policy

EU Ecolabel Regulation

Description

A voluntary EU-wide labelling scheme for sustainable financial products will define the minimum environmental performance of this product group and will be based on the requirements of the EU Ecolabel Regulation with the objective of awarding the label to financial products with the best environmental performance.

Purpose

Drawing on current best practices, an EU standard accessible to market participants shall facilitate channelling more investments into green projects and would constitute a basis for the development of reliable labelling of financial products. It shall be particularly useful for retail investors who would like to express their investment preferences on sustainable activities. The Ecolabel could facilitate retail investors' choice by gradually being integrated in tools, like comparison websites or financial planning services.

Scope

Financial products classified as PRIIPs ('packaged retail and insurance-based investment products') which include:

- ▶ Investment funds, in particular listed funds classified as Undertakings for the Collective Investment of Transferable Securities (UCITS)
- ▶ Life insurance policies with an investment element
- ▶ Structured products and structured deposits

In addition to these, any other retail financial product or financial instruments that satisfy the definition provided by the PRIIP Regulation



Criteria

- ▼ EU Ecolabel criteria shall be based on the environmental performance of products, taking into account the latest strategic objectives of the community in the field of the environment.
- ▼ EU Ecolabel criteria shall set out the environmental requirements that a product must fulfil in order to bear the EU Ecolabel.
- ▼ EU Ecolabel criteria shall be determined on a scientific basis considering the whole life cycle of products. In determining such criteria, the following shall be considered:
 - a. the most significant environmental impacts, in particular the impact on climate change, the impact on nature and biodiversity, energy and resource consumption, generation of waste, emissions to all environmental media, pollution through physical effects and use and release of hazardous substances;
 - b. the substitution of hazardous substances by safer substances, as such or via the use of alternative materials or designs, wherever it is technically feasible;
 - c. the potential to reduce environmental impacts due to durability and reusability of products;
 - d. the net environmental balance between the environmental benefits and burdens, including health and safety aspects, at the various life stages of the products.

Disclosure requirements

When assessing a financial product under the EU Ecolabel, the key elements to assess are whether the underlying assets are linked to environmentally sustainable economic activities, as established under the EU Taxonomy, as far as available and relevant, and whether financial products are sufficiently green to be awarded with the label.

- ▼ List of information requirements to be provided/made publicly available to retail investors.
- ▼ Information on the EU Ecolabel logo, registration number and statements that could appear on the EU Ecolabel.

Place of disclosure / reporting

Not applicable. Applications shall specify to the competent body the product group, description of the product as well as all other information requested by the competent body.

Verification

Competent bodies designated by each Member State shall ensure that the verification process is carried out in a consistent, neutral and reliable manner by a party independent from the operator being verified, based on international, European or national standards and procedures concerning bodies operating product-certification schemes.

Supervisory Authorities

The competent body shall, in respect of products to which it has awarded the EU Ecolabel, verify that the product complies with the EU Ecolabel criteria and assessment requirements, on a regular basis. The competent body shall, as appropriate, also undertake such verifications upon complaint. These verifications may take the form of random spot-checks.

Outlook

The EC will explore the use of the EU Ecolabel framework for certain financial products, to be applied once the EU Taxonomy is adopted.

#3

Fostering investment in sustainable projects

Policy

Regulation establishing the InvestEU Programme (InvestEU)

Description

Established under the MFF 2021-2027, the programme aims to bring together the various EU financial instruments currently available in order to benefit from economies of scale, and to expand the model of the Juncker Plan (i.e. using guarantees from the EU budget to crowd-in other investors). InvestEU will consist of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal.

Purpose

The InvestEU Fund will aim to mobilise public and private investment through a €47.5 billion total guarantee (EU budget guarantee of €38 billion + €9.5 billion in risk-bearing capacity from the financial partners themselves) that will back the investment projects of financial partners (the main one being the EIB Group, but also the EBRD, the World Bank, the Council of Europe Bank and national promotional banks), and increase their risk-bearing capacity. The programme shall mobilise €650 billion in additional investment, over the period 2021-2027.

InvestEU is part of the broader efforts of the EC to mobilise finance for the transition. As a pillar of the European Green Deal Investment Plan (EGDIP), InvestEU is integral to the success of raising 1€ trillion over the next 10 years. Under the EGDIP, about 280€ billion private and public investments are expected to be leveraged by InvestEU over the period 2021-2030. InvestEU serves as a guarantee to allow more and higher-risk investments by implementing partners, such as the EIB Group.

Scope

- Provides an EU guarantee supporting financing and investment operations carried out by the implementing partners in support of the Union's internal policies;
- Establishes an advisory support mechanism to support the development of investable projects and access to financing and to provide related capacity building ('InvestEU Advisory Hub');
- Establishes a database granting visibility to projects for which project promoters seek financing and which provides investors with information about investment opportunities ('InvestEU Portal').

Criteria

The InvestEU Fund shall operate through four policy windows that shall address market failures or sub-optimal investment situations within their specific scope. The 'sustainable infrastructure policy window' comprises sustainable investment in the areas of:

- transport, including multimodal transport, renewal and maintenance of rail and road infrastructure;
- energy, in particular renewable energy, energy efficiency in line with the 2030 energy framework, buildings renovation projects focused on energy savings and the integration of buildings into a connected energy, storage;
- supply and processing of raw materials;
- oceans, water, including inland waterways;
- waste management in line with the waste hierarchy and the circular economy;
- nature and other environment infrastructure and deployment of innovative technologies that contribute to the environmental climate resilience objectives of the Union, and meet the environmental sustainability standards of the Union;

The EIB group, together with the EC and potential implementing partners, shall define the risk methodology and risk mapping system relating to the financing and investment operations of the implementing partners in order to allow such operations to be assessed on a common rating scale.

A scoreboard of indicators (the 'scoreboard') shall be established to ensure an independent, transparent and harmonised assessment and will, among other indicators, cover the contribution to EU policy objectives.

Annex II of the Regulation sets out eligible areas for financing and investment operations, including in regard to energy, transport, environment and resources and sustainable agriculture and forestry.

Disclosure requirements	<p>The contribution of the InvestEU Fund to the achievement of the climate target and sectorial targets included in the 2030 Climate and Energy Framework will be tracked through an EU climate tracking system developed by the EC in cooperation with implementing partners and using in an appropriate way the criteria established by the EU Taxonomy Regulation for determining whether an economic activity is environmentally sustainable.</p> <p>The documentation provided by the implementing partners shall comprise the scoreboard among other information.</p>
Place of disclosure / reporting	<p>A performance reporting system shall ensure that data for monitoring implementation and results are collected efficiently, effectively and in a timely manner, and allow for adequate risk and guarantee portfolio monitoring. To that end, proportionate reporting requirements shall be imposed on the implementing partners, the advisory partners and other recipients of Union funds, as appropriate.</p>
Verification	<p>The secretariat of the Investment Committee shall check the completeness of the documentation provided by the implementing partners other than the EIB Group. The Investment Committee shall use in its assessment and verification of the proposals the scoreboard of indicators.</p>
Supervisory Authorities	<p>An independent Investment Committee shall be assisted by a secretariat. The secretariat shall be independent and answerable to the chairperson of the Investment Committee.</p>
Outlook	<p>This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the EU and apply from 1st January 2021.</p>

#4

Incorporating sustainability when providing financial advice

Policy

Markets in Financial Instruments Directive II (MiFID II)

Description

MiFID II and MiFIR provide for a harmonised legal framework governing the requirements applicable to investment firms, regulated markets, data reporting services providers and third country firms providing investment services or activities in the Union. MiFID II and MiFIR aim to enhance the efficiency, resilience and integrity of financial markets. The MiFID II/MiFIR frameworks sets out the conditions for authorization and organisational and business conduct requirements.

Purpose

Clarifying that ESG considerations and preferences should be taken into account in the investment and advisory process as part of the duties towards clients.

Scope

Firms providing investment advice and portfolio management

Criteria

Investment firms providing financial advice and portfolio management should carry out a mandatory assessment of ESG preferences of their clients. These investment firms should then take these ESG preferences into account in the selection process of the financial products that are offered to the clients:

- They meet the investment objectives of the client, the client's risk tolerance and any preferences, including ESG preferences, where relevant;
- Information about the investment objectives of the client or potential client shall include, where relevant, information about the length of time for which the client wishes to hold the investment, his or her preferences regarding risk taking, his or her risk profile, the purpose of the investment and his or her ESG preferences, if any;
- Investment firms shall have in place, and be able to demonstrate, adequate policies and procedures to ensure that they understand the nature, features, including costs, risks of investment services, and financial instruments selected for their clients, including ESG considerations where relevant, and that they shall assess, while taking into account cost and complexity, whether equivalent investment services or financial instruments can meet their client's profile;
- When providing investment advice, [...] whether the client's investment objectives are achieved by taking into account his or her ESG preferences expressed.

This policy applies the definition of "environmentally sustainable investment" as in the 'Investor Disclosure Regulation'.

Disclosure requirements

See 'Investor Disclosure Regulation'.

When providing investment advice, investment firms shall provide a description of the factors taken into consideration in the selection process used by the investment firm to recommend financial instruments, including risks, costs and complexity of the financial instruments and, where relevant, ESG considerations.

Place of disclosure / reporting

See 'Investor Disclosure Regulation'.

Investment advice: Suitability Statement (**pre-contractual on durable medium**)

Where an investment firm provides portfolio management or has informed the client that it will carry out a periodic assessment of suitability, the periodic report shall contain an updated statement of how the investment meets the client's preferences, objectives and other characteristics of the retail client: **Periodic report**

Verification

See 'Investor Disclosure Regulation'.

Supervisory Authorities

ESMA / national competent authorities.

On 30th April 2019, ESMA provided technical advice, including cost-benefit analysis, on the integration of environmental considerations and preferences in the investment decision and advisory processes.

Outlook

Delegated Regulation (EU) XXX amending Regulation (EU) 2017/565 as regards the integration of Environmental, Social and Governance (ESG) considerations and preferences into the investment advice and portfolio management shall enter into force on the twentieth day following that of its publication in the Official Journal of the EU, and shall apply as of 12 months after the date of entry into force, and shall be binding in its entirety and directly applicable in all Member States.



#4

Incorporating sustainability when providing financial advice

Policy

Insurance Distribution Directive (IDD)

Description

Insurance intermediaries and insurance undertakings distributing insurance-based investment products are required to obtain the necessary information about the customers' knowledge and experience in the investment field, their financial situation including the ability to bear losses and objectives including the customers risk tolerance to enable the insurance intermediaries and insurance undertakings to recommend the insurance-based investment products that are suitable for the customer (suitability assessment). The information regarding the investment objectives includes information about preferences regarding risk taking, risk profile and the purposes of the investment.

Purpose

Clarifying that ESG considerations and preferences should be taken into account in the advisory process as part of the duties towards customers and at harmonizing the way intermediaries and undertakings integrate ESG considerations and preference into the suitability assessment.

Scope

Insurance intermediaries and insurance undertakings distributing insurance-based investment products.

Criteria

Insurance intermediaries and insurance undertakings providing advice on insurance-based investment products should carry out a mandatory assessment of the investment objectives of their customers and potential customers:

- Information on investment objectives should include information about the length of time for which a customer or potential customer wishes to hold an investment, his or her preferences regarding risk taking, his or her risk profile and the purposes of the investment, including ESG preferences expressed by the customer;
- Explanation to the customers how their ESG preferences for each financial instrument are taken into consideration in the selection process to recommend insurance-based investment products.

This Regulation applies the definition of "environmentally sustainable investment" as in the 'Investor Disclosure Regulation'.

Disclosure requirements

See 'Investor Disclosure Regulation'.

When providing advice on the suitability of an insurance-based investment product, information shall be provided on how the recommendation provided is suitable for the customer, in particular how it meets the customer's investment objectives, including that person's risk tolerance and whether the customer's investment objectives are achieved by taking into account the ESG preferences expressed by the customer.

Place of disclosure / reporting

See 'Investor Disclosure Regulation'.

Investment advice: **Suitability Statement (pre-contractual)**

Where an insurance intermediary or an insurance undertaking has informed the customer that it will carry out a periodic assessment of suitability, the periodic report shall contain an updated statement of how the insurance-based investment product meets the customer's preferences, objectives and other characteristics of the customer: **Periodic report (durable medium)**

In case of investment product is sold to retail investor for the packaged retail and insurance-based investment products (PRIIPs), information shall include objectives and the means for achieving them, in particular whether the objectives are achieved by means of direct or indirect exposure to the underlying investment assets, including a description of the underlying instruments or reference values, including a specification of the markets the PRIIP invests in, including, where applicable, specific environmental objectives targeted by the product, as well as how the return is determined:

Key Information Document (website)

Verification

See 'Investor Disclosure Regulation'.

Supervisory Authorities

EIOPA / national competent authorities.

On 30th April 2019, EIOPA provided technical advice, including cost-benefit analysis, on the integration of environmental considerations and preferences in the investment decision and advisory processes.

Outlook

Delegated Regulation (EU) XXX amending Regulation (EU) 2017/2359 as regards the integration of Environmental, Social and Governance (ESG) considerations and preferences into the investment advice for insurance-based investment products shall enter into force on the twentieth day following that of its publication in the Official Journal of the EU, and shall apply as of 12 months after the date of entry into force, and shall be binding in its entirety and directly applicable in all Member States.



#5

Developing sustainability benchmarks

Policy

Benchmark Regulation

Benchmark Regulation: Delegated acts adopted in early 2020 as amendments to the regulation to Regulation (EU) 2016/1011.

The TEG subgroup published the final report in September 2019. This report serves as a basis for the drafting of delegated acts by the EC, which will be subject to a formal public consultation process. The Regulation was published in the Official Journal on 9 December 2019 and entered into force on 10 December 2019. Mostly, its obligations take effect from April 2020 onwards, with some additional obligations applying from 2023.

In December 2019, the TEG subgroup published a handbook on Climate Benchmarks and benchmarks' ESG disclosures.

Description

Harmonised framework to ensure the accuracy and integrity of the main categories of low carbon benchmarks used in individual or collective investment portfolios by establishing two types of financial benchmarks:

- ▼ -EU Climate Transition Benchmarks, which aim to lower overall GHG emissions intensity of a standard investment portfolio. More precisely, this type of benchmarks should be determined taking into account companies that follow a measurable, science-based "decarbonisation trajectory" in light of the long-term global warming target of the Paris agreement.
- ▼ EU Paris-aligned Benchmarks, which have the more ambitious goal to select only components that contribute to attaining the 2°C reduction set out in the Paris climate agreement. The minimum relative decarbonization is set at 50%, with measurable annual GHG emission savings.

The minimum relative decarbonization is set at 30% for the Climate Transition Benchmark and at 50% for the Paris-aligned Benchmark, with measurable annual GHG emission savings in line with the Paris 1.5 goal and at least 7% GHG emission reductions annually.

In addition, there would be an obligation for all benchmarks or families of benchmarks to provide an explanation of how environmental factors are reflected in their investment strategy, as well as how the methodology aligns with the target of reducing carbon emissions.

Purpose

The new category of financial benchmarks aims at giving greater information on an investment portfolio's carbon footprint.

Minimum standards and a common methodology for EU Climate Transition and EU Paris-aligned Benchmarks would help to avoid greenwashing. Increased transparency and comparability should lead to greater application of ESG indices.

Companies shall be encouraged to publicly disclose credible objectives to reduce their carbon emissions towards an overall alignment with the long-term global warming target of the Paris Climate Agreement.

Scope

- ▼ "EU Climate Transition Benchmark" administrators
- ▼ "EU Paris-aligned Benchmark" administrators
- ▼ All benchmarks / families of benchmarks

Criteria

'EU Climate Transition Benchmark' means a benchmark that is labelled as an EU Climate Transition Benchmark where the underlying assets are selected, weighted or excluded in such a manner that the resulting benchmark portfolio is on a decarbonisation trajectory and which is also constructed in accordance with the minimum standards:

- ▼ Criteria for the choice of the underlying assets, including, where applicable, any exclusion criteria for assets;
- ▼ Criteria and method for the weighting of the underlying assets in the benchmark;
- ▼ Determination of the decarbonisation trajectory for the EU Climate Transition Benchmarks.

EU Climate Transition Benchmark providers shall select, weight, or exclude underlying assets issued by companies that follow a decarbonisation trajectory in accordance with the following requirements:

- ▼ Companies disclose measurable and time-based carbon emission reduction objectives;
- ▼ Companies disclose a carbon emission reduction which is disaggregated down to the level of relevant operating subsidiaries;
- ▼ Companies disclose annual information on progress made towards those objectives;
- ▼ Activities of the underlying assets shall not significantly harm other ESG objectives.

Criteria

'EU Paris-aligned Benchmark' means a benchmark that is labelled as an EU Paris-aligned benchmark where the underlying assets are selected in such a manner that the resulting benchmark portfolio's carbon emissions are aligned with the long-term global warming target of the Paris Climate Agreement and which is also constructed in accordance with the minimum standards:

- ▼ Criteria for the choice of the underlying assets, including, where applicable, any exclusion criteria for assets;
- ▼ Criteria and method for the weighting of the underlying assets in the benchmark;
- ▼ The activities of the underlying assets shall not significantly harm other ESG objectives.

The **methodologies used for the EU Climate Transition and EU Paris-aligned Benchmarks** should have their foundation in science-based decarbonisation trajectories, or an overall alignment with the long-term global warming targets of the Paris Climate Agreement.

'Decarbonisation trajectory' means a measurable, science-based and timebound trajectory to reduce scope 1, 2 and 3 and carbon emissions towards the alignment with the long-term global warming target of the Paris Climate Agreement.

Disclosure requirements

All benchmark administrators (with exception of currency and interest rate benchmarks):

▼ ESG objectives:

Whether or not their benchmarks or families of benchmarks pursue ESG objectives, and whether or not the benchmark administrator offers such benchmarks; and in case a benchmark pursues ESG objectives, information how ESG factors are reflected in benchmark.

▼ Methodology:

- a. Key elements of the methodology that the administrator uses for each benchmark provided and published or, when applicable, for each family of benchmarks provided and published;
- b. Details of the internal review and the approval of a given methodology, as well as the frequency of such review;
- c. Procedures for consulting on any proposed material change in the administrator's methodology and the rationale for such changes, including a definition of what constitutes a material change and the circumstances in which the administrator is to notify users of any such changes;
- d. Explanation of how the key elements of the methodology reflect environmental factors for each benchmark or family of benchmarks.

Significant equity or bond benchmark providers:

Alignment with GHG emission reduction target: Detailed information on whether or not and to what extent an overall degree of alignment with the target of reducing carbon emissions or attaining the long-term global warming targets of the Paris Climate Agreement, as per the disclosure rules for financial products of the 'Investor Disclosure Regulation' is ensured.

EU Climate Transition and EU Paris-aligned Benchmark providers:

- ▼ As significant equity or bond benchmark providers;
- ▼ Methodology used for their calculation:
 - a. Description how the underlying assets were selected and weighted, and which assets were excluded and for what reason;
 - b. Assess how the benchmark contributes to environmental objectives, information how the carbon emissions of the underlying assets were measured, their respective values, including the total carbon footprint of the benchmark, and the type and source of data used;
 - c. Enable asset managers to choose the most appropriate benchmark for their investment strategy, explanation of the rationale behind the parameters of the methodology and explain how the benchmark contributes to environmental objectives.

Disclosure requirements

Methodology for EU Climate Transition Benchmarks:

- ▶ List of the top constituents of the benchmark;
- ▶ All criteria and methods, including selection and weighting factors, metrics and proxies used in the benchmark methodology;
- ▶ Criteria applied to exclude assets or companies that are associated with a level of carbon footprint or a level of fossil fuel reserves that are incompatible with inclusion in the benchmark;
- ▶ Criteria for the determination of the decarbonisation trajectory;
- ▶ Type and source of data used to determine the decarbonisation trajectory, including:
 - i. emissions generated from sources that are controlled by the company that issues the underlying assets "Scope 1";
 - ii. emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying assets "Scope 2";
 - iii. all indirect emissions that are not covered under "Scope 2" that occur in the value chain of the reporting company, including both upstream and downstream emissions "Scope 3", in particular for sectors with high impact on climate change and its mitigation;
 - iv. whether the data uses the Product and Organisation Environmental Footprint methods, or, global standards such as the recommendations of the TCFD;
 - v. the total carbon emissions of the index portfolio;

Where a parent index is used for the construction of an EU Climate Transition Benchmark, the tracking error between the EU Climate Transition Benchmark and the parent index shall be disclosed.

Where a parent index is used for the construction of an EU Climate Transition Benchmark, the ratio between the market value of the securities that are in the EU Climate Transition Benchmark and the market value of the securities in the parent index shall be disclosed.

Methodology for EU Paris-aligned Benchmarks:

- ▶ List of the top constituents of the benchmark;
- ▶ All criteria and methods, including selection and weighting factors, metrics and proxies used in the benchmark methodology;
- ▶ Criteria applied to exclude assets or companies that are associated with a level of carbon footprint or a level of fossil fuel reserves that are incompatible with inclusion in the benchmark;
- ▶ Formula or calculation that is used to determine whether the emissions are in line with the long-term global warming target of the Paris Climate Agreement.

Changes to the methodology:

Administrators of EU Climate Transition and EU Paris-aligned Benchmarks shall:

- ▶ Adopt and make public to users, procedures for and the rationale of any proposed material change in their methodology;
- ▶ Regularly, and at least annually, examine their methodologies to ensure that they reliably reflect the stated objectives and shall have a process in place for taking the views of all relevant users into account.

Place of disclosure / reporting

ESG objectives: **Benchmark statement**

Methodology: **Publish or make available** (EC would be empowered to specify a standard format to be used for references to ESG factors).

Verification

An administrator shall have in place an accountability framework, covering record-keeping, auditing and review, and a complaints process, that provides evidence of compliance with the requirements of this Regulation;

An administrator shall designate an internal function with the necessary capability to review and report on the administrator's compliance with the benchmark methodology and this Regulation;

For critical benchmarks, an administrator shall appoint an independent external auditor to review and report on the administrator's compliance with the benchmark methodology and this Regulation, at least annually;

Upon the request of the relevant competent authority, an administrator shall provide to the relevant competent authority the details of the reviews and reports.

Supervisory Authorities

ESMA / national competent authorities.

Outlook

Regulation shall enter into force on the day following its publication in the Official Journal of the EU.

By 30th April 2020 EU Paris-aligned Benchmark and EU Climate Transition Benchmark administrators shall comply with disclosure requirements regarding methodology under 'Disclosure requirements'.

By 1st January 2021, EC shall adopt a delegated act concerning the minimum standards for the EU Climate Transition and EU Paris-aligned Benchmarks, identifying sectors to be excluded because they do not have measurable and time-based carbon emission reduction objectives aligned with the Paris Climate Agreement target.

By 31st December 2021, all benchmarks or families of benchmarks, with the exception of currency and interest rate benchmarks, should, in their benchmark statement, include an explanation of how their methodology aligns with the target of carbon emission reductions or attains the long-term global warming target of the Paris Climate Agreement.

By 1st January 2022, administrators located in the EU which provide significant benchmarks determined on the basis of the value of one or more underlying assets or prices shall endeavour to market one or more EU Climate Transition Benchmarks.

By 31st December 2022 EU Climate Transition Benchmark providers shall select, weight, or exclude underlying assets issued by companies that follow a decarbonization trajectory as stated under 'Criteria'.

By 31st December 2022 EC shall review the minimum standards in order to ensure coherence of selection of underlying assets with EU definition of "environmentally sustainable investments".





#6

Better integrating sustainability in ratings and market research

Policy

Regulation on credit rating agencies (CRAR)

Description

Common regulatory approach in order to enhance the integrity, transparency, responsibility, good governance and independence of credit rating activities, contributing to the quality of credit ratings.

Purpose

Lays down conditions for the issuing of credit ratings and rules on the organisation and conduct of credit rating agencies, including their shareholders and members, to promote credit rating agencies' independence, the avoidance of conflicts of interest, and the enhancement of consumer and investor protection.

Scope

Credit ratings issued by credit rating agencies registered in the EU and which are disclosed publicly or distributed by subscription.

Criteria

Credit rating agencies shall:

- ▶ adopt, implement and enforce adequate measures to ensure that the credit ratings and the rating outlooks it issues are based on a thorough analysis of all the information that is available to it and that is relevant to its analysis according to the applicable rating methodologies. It shall adopt all necessary measures so that the information it uses in assigning credit ratings and rating outlooks is of sufficient quality and from reliable sources;
- ▶ use rating methodologies that are rigorous, systematic, continuous and subject to validation based on historical experience, including back-testing.

Disclosure requirements

A credit rating agency shall disclose to the public the methodologies, and descriptions of models and key rating assumptions such as mathematical or correlation assumptions used in its credit rating activities as well as their material changes.

Place of disclosure / reporting

Website

Verification

See [ESMA's Guidelines on the validation and review of Credit Rating Agencies' methodologies](#)

Supervisory Authorities

ESMA / national competent authorities (for the efficiency of supervision and in order to avoid duplication of tasks, the competent authorities of the Member States should cooperate)

Outlook

In July 2019 ESMA published a [Technical Advice to the EC on Sustainability Considerations in the credit rating market](#)

Starting in Q2 2018, the EC planned to engage with all relevant stakeholders to explore the merits of amending the Credit Rating Agency Regulation to mandate credit rating agencies to explicitly integrate sustainability factors into their assessments in a proportionate way to preserve market access for smaller players.

The EC plans to carry out a comprehensive study on sustainability ratings and research. It will analyse methodologies and explore aspects like the market structure of sustainability ratings and market research services, the depth and breadth of sustainability research assessments and scoring, and the independence of those research/scoring providers. The study will also explore possible measures to encourage sustainability ratings and market research.

#7

Clarifying institutional investors' and asset managers' duties

Policy

Regulation on disclosures relating to sustainable investments and sustainability risks (Investor Disclosure Regulation)

Description

Increase transparency on how institutional investors, asset managers and financial advisors consider sustainability risks in their investment decision-making or advisory processes, and to provide the information their clients need to inform their investment decisions or recommendations.

Purpose

As investors and asset managers shall act in the best interest of their clients and provide scope for integrating sustainability risks, make them systematically consider and integrate sustainability risk in a consistent way in their investment decisions and disclosure processes. Further, the Regulation shall enhance comparability of financial products.

Scope

Financial market participants:

- ▶ Insurance undertakings which make available an insurance-based investment product (IBIP)
- ▶ Alternative Investment Fund Managers (AIFMs)
- ▶ Investment firms which provide portfolio management
- ▶ Institutions for occupational retirement provision (IORPs)
- ▶ Providers of pension products, incl. pan-European Personal Pension Products (PEPPs)
- ▶ Managers of a qualifying European venture capital fund (EuVECA)
- ▶ Managers of a qualifying European social entrepreneurship fund (EuSEF)
- ▶ Undertakings for the Collective Investment in Transferable Securities (UCITS) management companies
- ▶ Credit institutions which provides portfolio management

Financial advisors:

- ▶ Insurance intermediary or undertaking which provides insurance advice with regard to IBIPs
- ▶ Credit institution, investment firm, AIFM or UCITS management company which provides investment advice

Criteria

A **sustainability risk** would mean an uncertain environmental event that could cause a negative material impact on the value of the investment.

Financial market participants and financial advisors would need to perform **regular assessment on how they comply with their duties** under this Regulation. This would include how relevant risks are integrated in investment decision making process, including organisational, risk management and governance aspects.

Where the sustainability risks assessment leads to the conclusion that there are **no sustainability risks deemed to be relevant** for the financial product, the reasons should be explained.

Where the assessment leads to the conclusion that these **risks are relevant**, the extent to which sustainability risks may impact the performance of the financial product should be disclosed either in qualitative or quantitative terms.

The overall sustainability-related impact of financial products would need to be reported by means of **indicators** relevant for measuring the chosen sustainability investment objective.

The **sustainability risks assessments** and related pre-contractual disclosures by financial market participants should feed into pre-contractual disclosures by financial advisers.

Criteria

Financial advisers should disclose how they take sustainability risks into account in the selection process of the **financial offering that is presented to the end-investors** regardless of the sustainability preferences of the end-investors, prior to providing the advice.

The **information [...] (on the website)** shall be clear, succinct and understandable for investors. It shall be published in an accurate, fair, clear, not misleading, simple and concise way and in a prominent easily accessible area.

Disclosure requirements

Financial market participants:

Sustainability risk policies:

Information on their policies on the integration of sustainability risks in their investment decision-making process.

Adverse sustainability impacts at entity level:

Principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to these principal adverse impacts; including at least:

- ▾ Information on policies on the identification and prioritisation of principal adverse sustainability impacts and indicators;
- ▾ Description of the principal adverse sustainability impacts and of the actions taken and, where relevant, planned;
- ▾ Brief summaries of engagement policies in accordance with the Shareholders Rights Directive II, where applicable;
- ▾ Reference to the adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of alignment with the long-term global warming targets of the Paris Climate Agreement.

OR (only if financial market participants do not exceed the average number of 500 employees during the financial year and 18 months after entry into force of this Regulation)

Where adverse impacts of investment decisions on sustainability factors are not considered, and clear reasoning for not doing so.

Remuneration policies in relation to the integration of sustainability risks:

Information on how their remuneration policies are consistent with the integration of sustainability risks.

Integration of sustainability risks

- ▾ Manner in which sustainability risks are integrated into their investment decisions, and
- ▾ Result of the assessment of the likely impacts of sustainability risks on the returns of the financial products;
- ▾ Where sustainability risks are deemed not to be relevant, a clear and concise explanation of why they are not relevant shall be provided.

Adverse sustainability impacts at financial product level:

No later than 36 months after entry into force of this Regulation, for financial products:

- ▾ Clear and reasoned explanation of whether, and, if so, how a financial product considers principal adverse impacts on sustainability factors;
- ▾ Statement that information on principal adverse impacts on sustainability factors is available.

Promotion of environmental characteristics:

- ▾ Where a financial product presents the promotion of environmental characteristics, information shall include the following:
 - a. information on how those characteristics are met;
 - b. if an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics.
- ▾ Financial market participants shall indicate the methodology used for the calculation of the indices referred to.

Sustainable investments:

- ▼ Where a financial product has as its objective sustainable investments and an index has been designated as a reference benchmark, the following shall be disclosed:
 - a. information on how the designated index is aligned with that objective;
 - b. an explanation as to why and how the designated index aligned with that objective differs from a broad market index.
- ▼ Where a financial product has as its objective sustainable investments and no index has been designated as a reference benchmark, an explanation shall be included on how that objective is attained.
- ▼ Where a financial product has as its objective the reduction in carbon emissions, the objective of low carbon emission exposure in view of achieving the long-term global warming targets of the Paris Climate Agreement shall be disclosed.
- ▼ Where no EU Climate Transition Benchmark or EU Paris-aligned Benchmark in accordance with the Benchmark Regulation is available, a detailed explanation shall be provided of how the continued effort of attaining the objective of reducing carbon emissions is ensured in view of achieving the long-term global warming targets of the Paris Climate Agreement.
- ▼ Financial market participants shall indicate the methodology used for the calculation of the indices and benchmarks referred to.

Promotion of environmental characteristics and of sustainable investments:

- ▼ For each financial product:
 - a. a description of the environmental characteristics or the sustainable investment objective;
 - b. information on the methodologies used to assess, measure and monitor the environmental characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental characteristics or the overall sustainable impact of the financial product;
 - c. the information under 'Promotion of environmental characteristics in pre-contractual disclosures' and 'Sustainable investments in pre-contractual disclosures';
 - d. the extent to which environmental characteristics are attained;
 - e. for financial products that are promoted having environmental characteristics:
 - (i) the overall sustainability-related impact of the financial product by means of relevant sustainability indicators, or
 - (ii) where an index has been designated as a reference benchmark, a comparison between the overall impact of the financial product with the designated index and a broad market index through sustainability indicators.

Financial advisors:**Sustainability risk policies:**

Information on their policies on the integration of sustainability risks in their investment or insurance advice.

Adverse sustainability impacts at entity level:

Information as to whether, taking due account of their size, nature and scale of their activities and the types of the financial products they advise on, they consider in their investment advice or insurance advice the principal adverse impacts on sustainability factors;

OR

Information as to why they do not to consider adverse impacts of investment decisions on sustainability factors in their investment advice or insurance advice, and, where relevant, including information as to whether and when they intend to consider such adverse impacts.

Remuneration policies in relation to the integration of sustainability risks:

Information on how their remuneration policies are consistent with the integration of sustainability risks.

Integration of sustainability risks:

- ▼ How sustainability risks are integrated into their investment or insurance advice, and
- ▼ Result of the assessment of the likely impacts of sustainability risks on the returns of the financial products.
- ▼ Where sustainability risks are deemed not to be relevant, a clear and concise explanation of why they are not relevant shall be provided.

Place of disclosure / reporting

- ▀ Sustainability risk policies: **Website**
- ▀ Adverse sustainability impacts at entity level: **Website**
- ▀ Remuneration policies in relation to the integration of sustainability risks: **Website**
- ▀ Integration of sustainability risks: **Pre-contractual disclosure**
- ▀ Adverse sustainability impacts at financial product level: **Pre-contractual disclosure**
- ▀ Promotion of environmental characteristics: **Pre-contractual disclosure**
- ▀ Sustainable investments: **Pre-contractual disclosure**
- ▀ Promotion of environmental characteristics and of sustainable investments: **Website & Periodic report**

Pre-contractual disclosure:

- ▀ for AIFMs, in the disclosures to investors referred to in Article 23(1) of Directive 2011/61/EU;
- ▀ for insurance undertakings, in the provision of information referred to in Article 185(2) of Directive 2009/138/EC or, where relevant, in accordance with Article 29(1) of Directive (EU) 2016/97;
- ▀ for IORPs, in the provision of information referred to in Article 41 of Directive (EU) 2016/2341;
- ▀ for managers of qualifying venture capital funds, in the provision of information referred to in Article 13(1) of Regulation (EU) No 345/2013;
- ▀ for managers of qualifying social entrepreneurship funds, in the provision of information referred to in Article 14(1) of Regulation (EU) No 346/2013;
- ▀ for manufacturers of pension products, in writing in good time before a retail investor is bound by a contract relating to a pension product;
- ▀ for UCITS management companies, in the prospectus referred to in Article 69 of Directive 2009/65/EC;
- ▀ for investment firms which provide portfolio management or provide investment advice, in accordance with Article 24(4) of Directive 2014/65/EU;
- ▀ for credit institutions which provide portfolio management or provide investment advice, in accordance with Article 24(4) of Directive 2014/65/EU;
- ▀ for insurance intermediaries and insurance undertakings which provide insurance advice with regard to IBIPs and for insurance intermediaries which provide insurance advice with regard to pension products exposed to market fluctuations, in accordance with Article 29(1) of Directive (EU) 2016/97;
- ▀ for AIFMs of ELTIFs, in the prospectus referred to in Article 23 of Regulation (EU) 2015/760;
- ▀ for providers of PEPPs, in the PEPP key information document referred to in Article 26 of PEPP Regulation on a pan-European Personal Pension Product.

Periodic report:

- ▀ for AIFMs, in the annual report referred to in Article 22 of Directive 2011/61/EU;
- ▀ for insurance undertakings, annually in writing in accordance with Article 185(6) of Directive 2009/138/EC;
- ▀ for IORPs, in the annual report referred to in Article 29 of Directive (EU) 2016/2341;
- ▀ for managers of qualifying venture capital funds, in the annual report referred to in Article 12 of Regulation (EU) No 345/2013;
- ▀ for managers of qualifying social entrepreneurship funds, in the annual report referred to in Article 13 of Regulation (EU) No 346/2013;
- ▀ for manufacturers of pension products, in writing in annual reports or in reports in accordance with national law;
- ▀ for UCITS management companies, in annual reports referred to in Article 69 of Directive 2009/65/EC;
- ▀ for investment firms which provide portfolio management, in a periodic report as referred to in Article 25(6) of Directive 2014/65/EU;
- ▀ for credit institutions which provide portfolio management, in a periodic report as referred to in Article 25(6) of Directive 2014/65/EU;
- ▀ for PEPP providers, in a PEPP Benefit Statement as referred to in Article 36 of PEPP Regulation on a pan-European Personal Pension Product.



Verification

Pre-contractual disclosures: as defined by respective policies
Disclosures in periodic reports: as defined by respective policies

EBA, ESMA and EIOPA / national competent authorities.

**Supervisory
Authorities**

EBA, EIOPA and ESMA should, by date of 12 months after entry into force of the Regulation, develop regulatory technical standards specifying the content, methodologies and presentation of information in relation to sustainability indicators and sustainability investment objectives. The EC should be empowered to adopt those standards.

Outlook

The Regulation came into force at the end of December 2019 and will apply 15 months thereafter.

#8

Incorporating sustainability in prudential requirements

Policy

Capital Requirements Regulation and Directive (CRR/CRD)

Description

A Directive on banking prudential requirements and a Regulation on prudential requirements for credit institutions and investment firms (so-called CRD IV package) establish stronger prudential requirements for banks, requiring them to keep sufficient liquidity and capital reserves. The package establishes rules on corporate governance of banks, requirements on internal risk management, the rules for calculating capital requirements, reporting and general obligations for liquidity requirements.

- ▶ A prudential requirements of investment firms Regulation amends the Capital Requirements Regulation and the MiFIR Regulation.
- ▶ A prudential supervision of investment firms Directive amends the Capital Requirements Directive and the MiFID II Directive.

Purpose

The aim is to include risks associated with climate and other environmental factors in institutions' risk management policies and the potential calibration of capital requirements of banks.

Scope

- ▶ Credit institutions
- ▶ Investment firms

Criteria

Institutions shall also have policies in place to verify that their disclosures convey their risk profile comprehensively to market participants.

All quantitative disclosures shall be accompanied by a qualitative narrative and any other supplementary information that may be necessary in order for the users of that information to understand the quantitative disclosures.

Any recalibration of capital requirements, based on data and the assessment of the prudential risk of banks' exposures, would need to rely on and be coherent with the EU Taxonomy.

Disclosure requirements

See 'Investor Disclosure Regulation'.

Risk management objectives and policies:

- ▶ Risk management objectives and policies for each separate category of risk;
- ▶ Summary of the strategies and processes to manage those risks.

Governance:

Whether or not the investment firm has set up a separate risk committee and the number of times the risk committee has met annually.

Remuneration policy and practices:

Information regarding their remuneration policy and practices for those categories of staff whose professional activities have a material impact on investment firm's risk profile.

ESG-related risks:

Information on ESG-related risks, physical risks and transition risks as defined in the EBA report on ESG-related risks on an annual basis for the first year and biannually thereafter.

Place of disclosure / reporting

See 'Investor Disclosure Regulation'.

Risk management objectives and policies, Governance and Remuneration policy and practices: **Public disclosure** (investment firm may determine the appropriate medium and location)

ESG-related risks: Information shall be disclosed:

- ▾ **in electronic format and in a single medium or location;**
- ▾ Institutions shall make available the information on their **website**.

Verification

Information to be disclosed shall be subject to the same level of internal verification as that applicable to the management report included in the institution's financial report.

Supervisory Authorities

EBA and ESMA / national competent authorities.

Capital Requirements Regulation (Prudential treatment of assets exposed to activities associated with environmental objectives):

EBA, after consulting the ESRB, shall assess on the basis of available data, whether a dedicated prudential treatment of assets exposed to activities associated substantially with environmental objectives, in the form of adjusted k-factors or adjusted k-factor coefficients, would be justified from a prudential perspective. In particular, EBA shall investigate the following:

- ▾ Methodological options for assessing exposures of asset classes to activities associated substantially with environmental objectives;
- ▾ Specific risk profiles of assets exposed to activities which are associated substantially with environmental objectives;
- ▾ Risks related to the depreciation of assets due to regulatory changes such as climate change mitigation;
- ▾ Potential effects of a dedicated prudential treatment of assets exposed to activities which are associated substantially with environmental objectives on financial stability.

EBA shall submit a report on its findings to the EC, the EP and the Council by two years after the date of entry into force of the Capital Requirements Regulation. On the basis of the report the EC shall, if appropriate, submit a legislative proposal.

Capital Requirements Directive (EBA report on ESG-related risks):

EBA shall prepare a report on the introduction of technical criteria related to exposures to activities associated substantially with environmental (ESG) objectives for the supervisory review and evaluation process of risks, with a view to assessing the possible sources and effects of such risks on investment firms, taking into account the EU Taxonomy, comprising at least the following:

- ▾ Definition of ESG-related risks, physical risks, and transition risks related to the transition into a more sustainable economy; including risks related to the depreciation of assets due to regulatory change, qualitative and quantitative criteria and metrics relevant for assessing such risks, as well as a methodology for assessing whether such risks may arise in the short, medium, or long term and could have a material financial impact on an investment firm;
- ▾ Assessment whether significant concentrations of specific assets might increase ESG-related risks, physical risks, and transition risks for an investment firm;
- ▾ Description of the processes which an investment firm may use to identify, assess, and manage ESG-related risks, physical risks and transition risks;
- ▾ Criteria, parameters and metrics which supervisors and investment firms may use to assess the impact of short, medium and long term ESG-related risks for the purposes of the supervisory review and evaluation process.

EBA shall submit the report on its findings to the EP, the Council and the EC by two years after the date of entry into force of the Capital Requirements Directive.

On the basis of this report, EBA may, if appropriate, adopt guidelines to introduce criteria related to ESG-related risks for the supervisory review and evaluation process.

Outlook

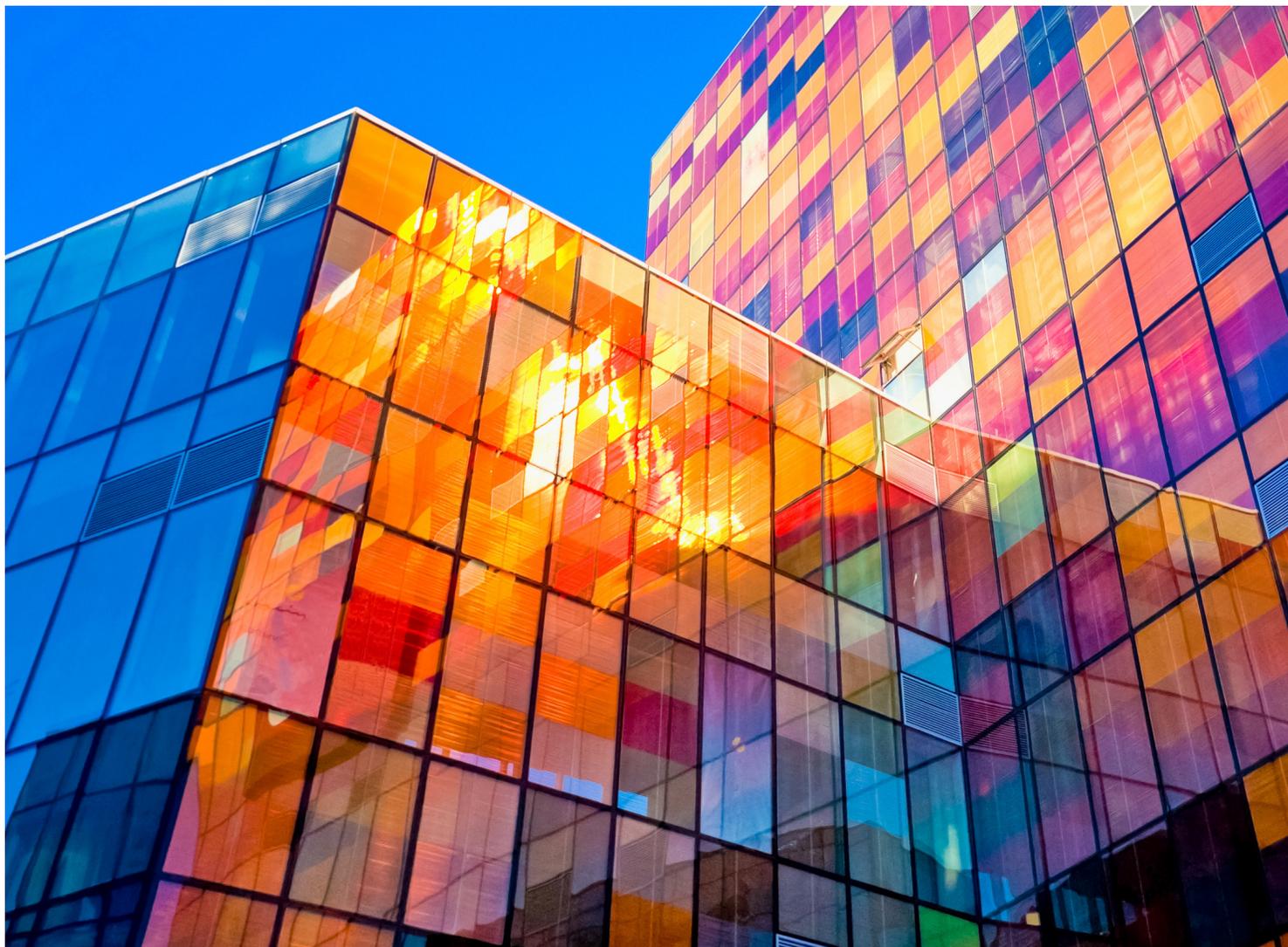
Capital Requirements Regulation shall enter into force on the day following that of its publication in the Official Journal of the EU and apply as of 18 months after the date of entry into force.

Capital Requirements Directive shall enter into force on the twentieth day following that of its publication in the Official Journal of the EU.

From 28 June 2022, large institutions which have issued securities that are admitted to trading on a regulated market of any Member State shall disclose ESG-related risks.

Three years after the date of application of this Directive and Regulation the EC, in close cooperation with EBA and ESMA, shall submit a report, together with a legislative proposal if appropriate, on whether any:

- ▾ ESG risks are to be considered for an investment firm's internal governance;
- ▾ ESG risks are to be considered for an investment firm's remuneration policy;
- ▾ ESG risks are to be considered for the treatment of risks;
- ▾ ESG risks are to be included in the supervisory review and evaluation process.



#8

Incorporating sustainability in prudential requirements

Policy

Solvency II Directive

Description

Solvency II is a harmonised prudential framework for insurance firms introducing rules for prudential requirements tailored to the specific risks which each insurer bears. The Directive promotes transparency, comparability and competitiveness in the insurance sector, setting out implementing rules and technical standards. It covers 3 main areas: risk-based capital requirements; governance and risk management requirements; supervisory reporting and public disclosure.

Purpose

Solvency II was amended in order to remove barriers to investment in the EU and channel capital to infrastructure and long-term sustainable projects.

Scope

Insurance companies providing life, non-life and re-insurance

Criteria

Requires insurance companies to hold capital in relation to their risk profiles to guarantee that they have enough financial resources to withstand financial difficulties.

Insurance companies have to put in place an adequate and transparent governance system and conduct their own risk and solvency assessment on a regular basis.

The solvency and financial condition report shall include a clear and concise summary. The summary of the report shall be understandable to policy holders and beneficiaries, highlighting any material changes to the insurance or reinsurance undertaking's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management over the reporting period.

Disclosure requirements

See 'Investor Disclosure Regulation'.

Solvency and financial condition report:

- ▶ Qualitative and quantitative information on the insurance or reinsurance undertaking's underwriting performance;
- ▶ Separate section on any other material information regarding business and performance of the insurance or reinsurance undertaking.

Place of disclosure / reporting

See 'Investor Disclosure Regulation'.
Solvency and financial condition report: **Website**

Verification

See 'Investor Disclosure Regulation'.

Supervisory Authorities

EIOPA / national competent authorities.

Outlook

After going through the consultation process, mandated by the EC to the European Insurance and Occupational Pensions Authority (EIOPA), over the course of 2019, EIOPA will present a proposal for the review of Solvency II in mid-June 2020.

#9

Strengthening sustainability disclosure and accounting rule-making

Policy

Non-Financial Reporting Directive (NFRD)

Description

Requires large companies to disclose certain information on the way they operate and manage environmental challenges. It currently covers about 6.000 companies in the EU.

Purpose

Shall help investors, consumers, policymakers and other stakeholders to evaluate the non-financial performance of large companies and encourage these companies to develop a responsible approach to business.

Scope

Large public-interest companies with more than 500 employees:

- ▶ Listed companies
- ▶ Banks
- ▶ Insurance companies
- ▶ Other companies designated by national authorities as public-interest entities

Criteria

Companies have flexibility to disclose relevant information in the way they consider most useful. Companies may use international, European or national guidelines to produce their statements, and take into account the guidelines on non-financial reporting and the guidelines on reporting climate-related information.

Disclosure requirements

Information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to environmental matters, including:

- ▶ Brief description of the undertaking's business model;
- ▶ Description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
- ▶ Outcome of those policies;
- ▶ Principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
- ▶ Non-financial key performance indicators relevant to the particular business.

Where the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so.

Further non-binding guidance is provided through guidelines on non-financial reporting, supplemented by guidelines on reporting climate-related information. These non-binding guidelines were first published in 2017 , with a revision of the guidelines in 2019 . The latest revision integrated the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Place of disclosure / reporting

Non-financial statement:

- ▶ Management report; or
- ▶ Made publicly available on website, not exceeding six months after the balance sheet date, and is referred to in the management report.

Verification

Statutory auditors and audit firms should check that the non-financial statement or the separate report has been provided. In addition, it should be possible for Member States to require that the information included in the non-financial statement or in the separate report be verified by an independent assurance services provider.

Supervisory Authorities

ESMA / national competent authorities.

Outlook

The European Commission will publish the results of a fitness check on public reporting by companies in October 2019 (tbc). It covers in a holistic manner the Accounting Directive including the Non-Financial Reporting Directive, the Regulation on International Accounting Standards (IAS Regulation), the Transparency Directive (TD), the Banks Accounts Directive, and the Insurance Accounts Directive. The recent evaluation of IFRS will be factored in.

There are strong signals that the NFRD will be revised in the incoming EC's term.

#9

Strengthening sustainability disclosure and accounting rule-making

Policy**International Financial Reporting Standards Regulation (IFRS)****Description**

All EU listed companies must use IFRS as adopted by the EU for their consolidated financial statements. EU countries can opt to extend the use of IFRS to annual financial statements and non-listed companies as well.

Purpose

IFRS provide a common accounting language used by more than 100 countries. They make company accounts understandable and comparable across international boundaries.

Scope

All listed EU companies

Criteria

When a new standard is issued by the IASB, the EU needs to endorse it before it comes into force. Regulation (EC) No 1606/2002 establishes a specific endorsement process under the responsibility of the European Commission together with the following consultative and advisory organisations:

[European Financial Reporting Advisory Group](#) (EFRAG), an independent organisation providing expert advice to the Commission

[Accounting Regulatory Committee](#) (ARC), composed of representatives of EU countries and chaired by the European Commission

Disclosure requirements

Listed companies (those whose securities are traded on a regulated market) must prepare their consolidated financial statements in accordance with a single set of international standards called IFRS.

Place of disclosure / reporting

Consolidated financial statements

Verification

Audit firms

Supervisory Authorities

ESMA / national competent authorities

Outlook

The European Commission published the results of a fitness check on public reporting by companies in November 2019. It covered in a holistic manner the Accounting Directive including the Non-Financial Reporting Directive, the Regulation on International Accounting Standards (IAS Regulation), the Transparency Directive (TD), the Banks Accounts Directive, and the Insurance Accounts Directive. The recent evaluation of IFRS will be factored in. The results of fitness check of supervisory reporting show areas of improvement and the need for a comprehensive approach for fit for the future reporting requirements.

In the European Green Deal, the EC outlined a roadmap for upcoming legislative changes. The revision of the NFRD is due to take place over the course of 2020. A consultation process was launched in mid-February 2020 and will end mid-May 2020.

An inception impact assessment is scheduled for Q4 2020

#10

Fostering sustainable corporate governance and attenuating short-termism in capital markets

Policy

Shareholders Rights Directive II (SRD II)

Description

SRD II establishes requirements in relation to the exercise of certain shareholder rights attached to voting shares of companies. It also establishes specific requirements to encourage shareholder engagement, in particular for the long-term. The regulation was first translated into national Member State law in June 2019, operational implementation will follow by September 2020.

Purpose

- ▼ Improve corporate governance via encouraging long-term shareholder engagement;
- ▼ Discourage excessive short-term risk taking;
- ▼ Increase the level and quality of engagement of asset owners and asset managers with their investee companies and improve the ease with which a company can identify its own shareholders as a means of facilitating shareholder engagement;
- ▼ Improve transparency between institutional investors and asset managers with regards to shareholder engagement;
- ▼ Grant shareholders the right to hold a binding or advisory vote on remuneration policy;
- ▼ To ensure reliability and quality of advice of proxy advisors

Scope

- ▼ Institutional investors
- ▼ Asset managers
- ▼ Intermediaries
- ▼ Proxy advisers

Criteria

Transparency obligations for institutional investors and asset managers by requiring them to develop and disclose an engagement strategy including a description of how they monitor investee companies on non-financial performance, social and environmental impact and corporate governance, and to disclose on an annual basis how their engagement policy has been implemented.

Disclosure requirements

Institutional investors and asset managers:

Engagement policy that describes how they:

- ▼ integrate shareholder engagement in their investment strategy;
- ▼ monitor investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance;
- ▼ conduct dialogues with investee companies;
- ▼ exercise voting rights and other rights attached to shares;
- ▼ cooperate with other shareholders;
- ▼ communicate with relevant stakeholders of the investee companies and;
- ▼ manage actual and potential conflicts of interests in relation to their engagement.

Shall, on an annual basis, publicly disclose:

- ▼ how their engagement policy has been implemented, including a general description of voting behaviour;
- ▼ an explanation of the most significant votes and the use of the services of proxy advisors;
- ▼ how they have cast votes in the general meetings of companies in which they hold shares.

Institutional investors (website):

- ▶ Shall publicly disclose how the main elements of their equity investment strategy are consistent with the profile and duration of their liabilities, in particular long-term liabilities, and how they contribute to the medium to long-term performance of their assets.
- ▶ Where an asset manager invests on behalf of an institutional investor, whether on a discretionary client-by-client basis or through a collective investment undertaking, the institutional investor publicly discloses the following information regarding its arrangement with the asset manager:
 - a. how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the profile and duration of the liabilities of the institutional investor, in particular long-term liabilities;
 - b. how that arrangement incentivises the asset manager to make investment decisions based on assessments about medium to long-term financial and non-financial performance of the investee company and to engage with investee companies in order to improve their performance in the medium to long-term;
 - c. how the method and time horizon of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the profile and duration of the liabilities of the institutional investor, in particular long-term liabilities, and take absolute long-term performance into account;
 - d. how the institutional investor monitors portfolio turnover costs incurred by the asset manager and how it defines and monitors a targeted portfolio turnover or turnover range;
 - e. the duration of the arrangement with the asset manager.

Asset managers (website):

- ▶ Shall disclose, on an annual basis, to the institutional investor how their investment strategy and implementation thereof complies with that arrangement and contributes to the medium to long-term performance of the assets of the institutional investor or of the fund.
- ▶ Shall report on the key material medium to long-term risks associated with the investments, on portfolio composition, turnover and turnover costs, on the use of proxy advisors for the purpose of engagement activities and their policy on securities lending and how it is applied to fulfil its engagement activities if applicable, particularly at the time of the general meeting of the investee companies.
- ▶ Shall disclose information on whether and, if so, how, they make investment decisions based on evaluation of medium to long-term performance of the investee company, including non- financial performance, and on whether and, if so, which conflicts of interests have arisen in connection with engagements activities and how the asset managers have dealt with them.

Proxy advisors (website):

- ▶ Shall publicly disclose reference to a code of conduct which they apply and report on the application of that code of conduct;
- ▶ Where proxy advisors do not apply a code of conduct, they shall provide a clear and reasoned explanation why this is the case. Where proxy advisors apply a code of conduct but depart from any of its recommendations, they shall declare from which parts they depart, provide explanations for doing so and indicate, where appropriate, any alternative measures adopted;
- ▶ Proxy advisors publicly disclose on an annual basis at least all of the following information in relation to the preparation of their research, advice and voting recommendations:
 - a. the essential features of the methodologies and models they apply;
 - b. the main information sources they use;
 - c. the procedures put in place to ensure quality of the research, advice and voting recommendations and qualifications of the staff involved;
 - d. whether and, if so, how they take national market, legal, regulatory and company-specific conditions into account;
 - e. the essential features of the voting policies they apply for each market;
 - f. whether they have dialogues with the companies which are the object of their research, advice or voting recommendations and with the stakeholders of the company, and, if so, the extent and nature thereof;
 - g. the policy regarding the prevention and management of potential conflicts of interests.

Place of disclosure / reporting

Engagement policy: **Website**
Remuneration policy: **Remuneration report on website**

Verification

n/a

ESMA / national competent authorities.

Supervisory Authorities

Member States shall ensure that institutional investors and asset managers develop and publicly disclose the information stated under "Disclosure requirements".

Outlook

SRD II, as an amending Directive, will require transposition into each Member State's national law and is expected to have been implemented in September 2019.



#Others relevant policies

From 'Fitness check on public reporting by companies'

Policy

Accounting Directive

Description

Companies with limited liability doing business in the EU, whatever their size, have to prepare annual financial statements and file them with the relevant national business register. Groups have to prepare consolidated financial statements.

Purpose

Harmonization of national requirements about:

- ▾ Presentation and content of annual or consolidated financial statements;
- ▾ Presentation and content of management reports;
- ▾ Measurement basis companies use to prepare their financial statements;
- ▾ Audit of financial statements;
- ▾ Publication of financial statements;
- ▾ Responsibility of management with regards to all above.

Scope

Public-interest entities:

- ▾ Credit institutions
- ▾ Insurance undertakings
- ▾ Companies with securities listed

Companies other than a public-interest entity, EU requirements are proportionate to the company's size.

Criteria

Financial statements have to include – as a minimum – the balance sheet, the profit and loss account and a certain number of notes to the financial statements. Large and medium-sized companies also have to publish management reports.

Disclosure requirements

Management Report (only large undertakings and public-interest entities):

- ▾ Fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces;
- ▾ Balanced and comprehensive analysis of the development and performance of the undertaking's business and of its position, consistent with the size and complexity of the business;
- ▾ To the extent necessary for an understanding of the undertaking's development, performance or position, the analysis shall include both financial and, where appropriate, non- financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. In providing the analysis, the management report shall, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements;
- ▾ Undertaking's likely future development;
- ▾ Activities in the field of research and development;
- ▾ In relation to the undertaking's use of financial instruments and where material for the assessment of its assets, liabilities, financial position and profit or loss: (i) the undertaking's financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; and (ii) the undertaking's exposure to price risk, credit risk, liquidity risk and cash flow risk.

Corporate Governance Statement:

- ▼ Reference to the following, where applicable:
 - a. Corporate governance code to which the undertaking is subject;
 - b. Corporate governance code which the undertaking may have voluntarily decided to apply;
 - c. All relevant information about the corporate governance practices applied over and above the requirements of national law.
- ▼ Description of the main features of the undertaking's internal control and risk management systems in relation to the financial reporting process;
- ▼ Unless the information is already fully provided for in national law, a description of the operation of the shareholder meeting and its key powers and a description of shareholders' rights and how they can be exercised.

Report on payments to governments (large undertakings and all public-interest entities active in the extractive industry or the logging of primary forests):

- ▼ Total amount of payments made to each government;
- ▼ Total amount per type of payment in regard to:
 - a. production entitlements;
 - b. taxes levied on the income, production or profits of companies, excluding taxes levied on consumption such as value added taxes, personal income taxes or sales taxes;
 - c. royalties;
 - d. dividends;
 - e. signature, discovery and production bonuses;
 - f. licence fees, rental fees, entry fees and other considerations for licences and/or concessions; and
 - g. payments for infrastructure improvements.

Place of disclosure / reporting

Management Report: **Together with annual financial statements**

Corporate Governance Statement: Section of the **management report** or **website** to which reference is made in the management report

Report on payments to governments: **Public report** on annual basis (large undertakings) or included in consolidated report (parent undertakings)

Verification

Statutory auditors or audit firms approved by Member States to carry out statutory audits. This shall include whether the management report is consistent with the financial statements for the same financial year and has been prepared in accordance with the applicable legal requirements; and state whether, there have been identified material misstatements in the management report.

Supervisory Authorities

ESMA / national competent authorities.

Outlook

The European Commission published the results of a fitness check on public reporting by companies in November 2019. It covered in a holistic manner the Accounting Directive including the Non-Financial Reporting Directive, the Regulation on International Accounting Standards (IAS Regulation), the Transparency Directive (TD), the Banks Accounts Directive, and the Insurance Accounts Directive. The recent evaluation of IFRS will be factored in. The results of fitness check of supervisory reporting show areas of improvement and the need for a comprehensive approach for fit for the future reporting requirements.

In the European Green Deal, the EC outlined a roadmap for upcoming legislative changes. The revision of the NFRD is due to take place over the course of 2020. A consultation process was launched in mid-February 2020 and will end mid-May 2020.

An inception impact assessment is scheduled for Q4 2020

#Others relevant policies

From 'Fitness check on public reporting by companies'

Policy

Regulation on International Accounting Standards (IAS)

Description

Requires all EU publicly listed companies including banks and insurance companies, to prepare their consolidated accounts in accordance with financial reporting standards (IFRSs).

Purpose

Using common accounting standards improves the transparency and comparability of company accounts, thus increasing market efficiency and reducing the [cost of raising capital](#) for companies.

Scope

All listed EU companies

Criteria

The international accounting standards can only be adopted if they are not contrary to the following criteria:

- ▶ Annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss;
- ▶ Conducive to the European public good and;
- ▶ Meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

Disclosure requirements

For each financial year companies governed by the law of a Member State shall prepare their consolidated accounts in conformity with the international accounting standards.

Place of disclosure / reporting

Annual accounts

Verification

Statutory audit certifying the financial statements.

Supervisory Authorities

European Competition Network / national competent authorities.

Outlook

The European Commission published the results of a fitness check on public reporting by companies in November 2019. It covered in a holistic manner the Accounting Directive including the Non-Financial Reporting, the Regulation on International Accounting Standards (IAS Regulation), the Transparency Directive (TD), the Banks Accounts Directive, and the Insurance Accounts Directive. The recent evaluation of IFRS will be factored in. The results of fitness check of supervisory reporting show areas of improvement and the need for a comprehensive approach for fit for the future reporting requirements.

#Others relevant policies

From 'Fitness check on public reporting by companies'

Policy

Transparency Directive

Description

Requires issuers of securities traded on regulated markets within the EU to make their activities transparent, by regularly publishing certain information.

Purpose

Transparency concerning publicly traded companies is essential for the proper functioning of capital markets. Investors need reliable and timely information about the business performance and the assets of the companies they invest in.

The disclosure of payments to governments should provide civil society and investors with information to hold governments of resource-rich countries to account for their receipts from the exploitation of natural resources.

Scope

Issuers of securities traded on regulated markets within the EU

Criteria

The EU has special reporting rules for issuers with securities admitted to trading on regulated markets.

Disclosure requirements

Annual financial report:

- ▾ Audited financial statements,
- ▾ Management report, and
- ▾ Statements made by the persons responsible within the issuer, to the effect that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Payments to governments:

- ▾ Issuers who have activities in the extractive or logging of primary forest industries should disclose payments made to governments in the countries in which they operate.
- ▾ Operators who place timber and timber products on the market, which require traders of timber products to exercise due diligence in order to prevent illegal wood from entering into the Union market.

Place of disclosure / reporting

Annual financial report: [European Single Electronic Format](#) is the electronic reporting format in which issuers on EU regulated markets shall prepare their annual financial reports from 1 January 2020.

Payments to governments: [Separate report](#) (on annual basis)

Verification

Statutory auditors or audit firms approved by Member States to carry out statutory audits.

Supervisory Authorities

ESMA / national competent authorities

Outlook

The European Commission published the results of a fitness check on public reporting by companies in November 2019. It covered in a holistic manner the Accounting Directive including the Non-Financial Reporting, the Regulation on International Accounting Standards (IAS Regulation), the Transparency Directive (TD), the Banks Accounts Directive, and the Insurance Accounts Directive. The recent evaluation of IFRS will be factored in. The results of fitness check of supervisory reporting show areas of improvement and the need for a comprehensive approach for fit for the future reporting requirements.



#Others relevant policies

From 'Fitness check on public reporting by companies'

Policy

Banks Accounts Directive

Description

Unless they prepare IFRS financial statements, any bank in the EU must publish financial statements in compliance with national accounting rules that are in line with this sectoral Accounting Directive.

Purpose	Harmonise the format and contents of the annual accounts, including consolidated accounts, of all financial institutions within the EU.
Scope	Most credit institutions (e.g. banks) and other financial institutions
Criteria	Criteria for layout of the balance sheet, profit and loss account, valuation rules, among others.
Disclosure requirements	n/a (disclosure requirements for financial reports)
Place of disclosure / reporting	Annual report including annual accounts
Verification	Statutory audit
Supervisory Authorities	EBA / national competent authorities
Outlook	The European Commission published the results of a fitness check on public reporting by companies in November 2019. It covered in a holistic manner the Accounting Directive including the Non-Financial Reporting, the Regulation on International Accounting Standards (IAS Regulation), the Transparency Directive (TD), the Banks Accounts Directive, and the Insurance Accounts Directive. The recent evaluation of IFRS will be factored in. The results of fitness check of supervisory reporting show areas of improvement and the need for a comprehensive approach for fit for the future reporting requirements.

#Others relevant policies

From 'Fitness check on public reporting by companies'

Policy

Insurance Accounts Directive

Description

Unless they prepare IFRS financial statements, any insurance company in the EU must publish financial statements in compliance with national accounting rules that are in line with this sectoral Accounting Directive.

Purpose

Shall ensure a common basic standard of transparency and information in insurance accounts everywhere in the EU, in the interest of shareholders. This is also required by policyholders and insurance intermediaries who have a direct interest in an insurer's financial strength.

Scope

Insurance companies

Criteria

Criteria for layout of the balance sheet, profit and loss account, valuation rules, among others.

Disclosure requirements

n/a (disclosure requirements for financial reports)

Place of disclosure / reporting

Annual report including annual accounts

Verification

Statutory audit

Supervisory Authorities

EIOPA / national competent authorities

Outlook

The European Commission published the results of a fitness check on public reporting by companies in November 2019. It covered in a holistic manner the Accounting Directive including the Non-Financial Reporting, the Regulation on International Accounting Standards (IAS Regulation), the Transparency Directive (TD), the Banks Accounts Directive, and the Insurance Accounts Directive. The recent evaluation of IFRS will be factored in. The results of fitness check of supervisory reporting show areas of improvement and the need for a comprehensive approach for fit for the future reporting requirements.



ABBREVIATIONS

EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEA	European Environmental Agency
EFRAG	European Financial Reporting Advisory Group
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
EP	European Parliament
ESA	European Supervisory Authority
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EU-GBS	EU Green Bond Standard
GBF	Green Bond Framework
MFF	Multiannual Financial Framework
SDGs	Sustainable Development Goals
TEG	European Commission Technical Expert group on Sustainable Finance
TCFD	Task Force on Climate-related Financial Disclosures

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Action 4: Incorporating sustainability when providing financial advice

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Action 7: Clarifying institutional investors' and asset managers' duties

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Action 9: Strengthening sustainability disclosure and accounting rule-making

[Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups](#)

[Guidelines on non-financial reporting \(methodology for reporting non-financial information\)](#)

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Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets

[Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies](#)

[Directive \(EU\) 2017/828 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement](#)

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Other relevant policies: Covered by 'Fitness check on public reporting by companies'

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