The European regulation of sustainable finance - taking stock of the regulatory initiatives and institutional issues in EU regime

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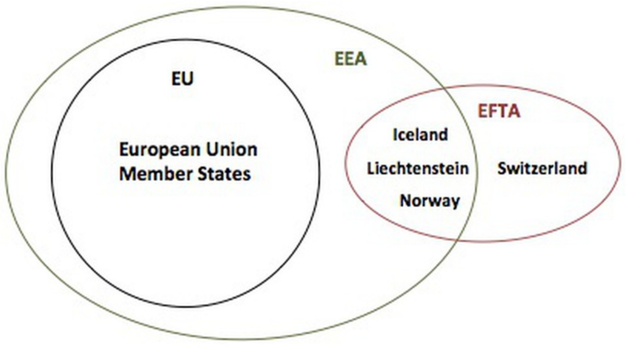
Seminar: European Regulatory Approach to Sustainable Finance

University of Oslo

Content

1. The EU Taxonomy Regulation (Taxonomy)
2. Sustainable Finance Disclosure Regulation (SFDR)
3. Corporate Sustainability Reporting Directive (CSRD)
4. EU CRR & CRD
5. EU Green Bond Standard (EUGBS)

EEA’s perspective on sustainable financ



European Green Deal and EEA

- the EFTA States welcome the efforts the EU has initiated in the field of sustainable finance and follow the work in this field with great interest (see https://www.efta.int/sites/default/files/documents/about-efta/EFTA-Ecofin-Common-Paper-2019.pdf)

- Liechtenstein, Norway and Iceland are as observers on the Member State expert panel on sustainable finance of the EU

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- ‘EU-Norway Green Alliance’ established on 24 April 2023 to strengthen their joint climate action, environmental protection efforts, and cooperation on the clean energy and industrial transition (see New EU-Norway Green Alliance to deepen cooperation (ehttps://ec.europa.eu/commission/presscorner/detail/en/ip_23_2391uropa.eu)).
    - A Green Alliance is the most comprehensive form of bilateral engagement established under the European Green Deal, with both parties committing to climate neutrality and to aligning their domestic and international climate policies to pursue this goal.

EU regulations on sustainable finance adopted by EEA

Sustainability Disclosure for Financial Firms (SFDR)

- EEA adopted the EU regulation on sustainability-related disclosures in the financial services sector on 29 April 2022 (OJ L 317; EEA Supplement No 61, 22.9.2022, p.110)

EU Taxonomy

- EEA adopted the EU regulation on the establishment of a framework to facilitate sustainable investment on 29 April 2022 (OJ L 198; EEA Supplement No 61, 22.9.2022, p.110)

The EU Taxonomy Regulation

Intended Impact

Market practice

- **Different taxonomies** among Member States and institutions hinder cross-border capital flows
- **Costs for real economy** to raise capital and for financial institutions to provide clarity
- **Burdensome for investors** to check and compare information

Hampering investments into a more sustainable economy

EU Sustainable Taxonomy

A harmonized **list of economic activities** that can be considered **environmentally sustainable** for investment purposes.

Intended Impact

- ✓ **Certainty** for economic actors and financial market participants
- ✓ **Protection** of private investors and mitigation of Greenwashing
- ✓ **Easier** for real economy to raise capital
- ✓ **Mitigation of** market fragmentation
- ✓ **Basis for further policy action**

Reorienting capital flows towards sustainable investment

Taxonomy Objectives & Framework

Make a positive contribution
Substantial contribution to at least one of the six environmental objectives

Avoid significant harm
Do no significant harm to any of the other five environmental objectives

Comply with Minimum social safeguards

1. Climate change mitigation
2. climate change adaptation
3. sustainable use and protection of water and marine resources
4. transition to a circular economy
5. pollution prevention and control
6. the protection and restoration of biodiversity and ecosystems

What is the EU Taxonomy?

A classification system

Provides clarity on what is an environmentally sustainable activity and under which circumstances.

A measuring tool

Measures the degree of sustainability of an investment and the degree of green activities of companies

A transition tool

Helps investors and companies to plan and report on the transition. It sets the objectives and the direction of travel for different economic activities.

Ultimately, it helps raise the needed investments to build a net zero, resilient and environmentally sustainable economy.

What the EU Taxonomy is **not**:

- It’s not a mandatory list to invest in
- It’s not a rating of the “greenness” of companies
- It does not make any judgement on the financial performance of an investment
- What’s not green is not necessarily brown.

Key components of Taxonomy

The Technical Screening Criteria (TSC) –
Science Based

A set of rules and metrics used to evaluate whether an **economic activity** can be considered environmentally sustainable under [the EU Taxonomy].

The EU Taxonomy's **technical screening criteria** are structured around a two-tier approach. The first tier consists of **general criteria,** while the second tier includes **sector-specific criteria** that apply to specific economic activities.

+

Transition & **Enabling** activities!

•**Eligibility -** *Taxonomy-eligible* if it fits the description of an activity detailed in the Delegated Acts supplementing the Taxonomy Regulation (both the Climate Delegated Act and Environmental Delegated Act)

•**Alignment** - Taxonomy-aligned where the activity is eligible and complies with all of the following *(as per previous page)*

- the **substantial contribution** criteria;
- the **do no significant harm (DNSH)** criteria;

•and

- the **minimum safeguards (MS)**.

Why an EU Taxonomy

The first High Level Expert Group (HLEG)

- Defining EU Climate Finance
- Mitigation and Adaptation are very different – adaptation is a process
- Mitigation list has to cover all sectors
- Adaptation – standard criteria as needed in ALL sectors

New Platform on Sustainable Finance: a two-year mandate: Q1 2023 to Q4 2024.

Three key workstreams on which the Platform support the Commission with advice and analysis on:

➢ the **usability** of the Taxonomy and wider sustainable finance framework;

➢ the development of recommendations for **additional Taxonomy** and on possible **revisions/updates** of criteria;

➢ the implementation of the Strategy on Financing the Transition to a Sustainable Economy, esp. the **monitoring of capital flows** into sustainable investments.

Climate Delegated Act (CDA)

- Provides TSC for **Climate Change Mitigation & Climate Change Adaptation**
- The economic activities of roughly 40% of listed companies, in sectors which **are responsible for almost 80% of direct greenhouse** gas emissions in Europe
- Covers total of 107 economic activities spanning over 13 economic sectors

Amendments to the Climate Delegated Act (13 June 2023)

The Commission has adopted targeted amendments to the **EU Taxonomy Climate Delegated Act** – expanding on economic activities contributing to **climate change mitigation and adaptation** not included so far *(e.g. manufacturing and transport sectors)*

Complementary Climate Delegated Act (15 July 2022)

Adding Gas and Nuclear – under specific conditions

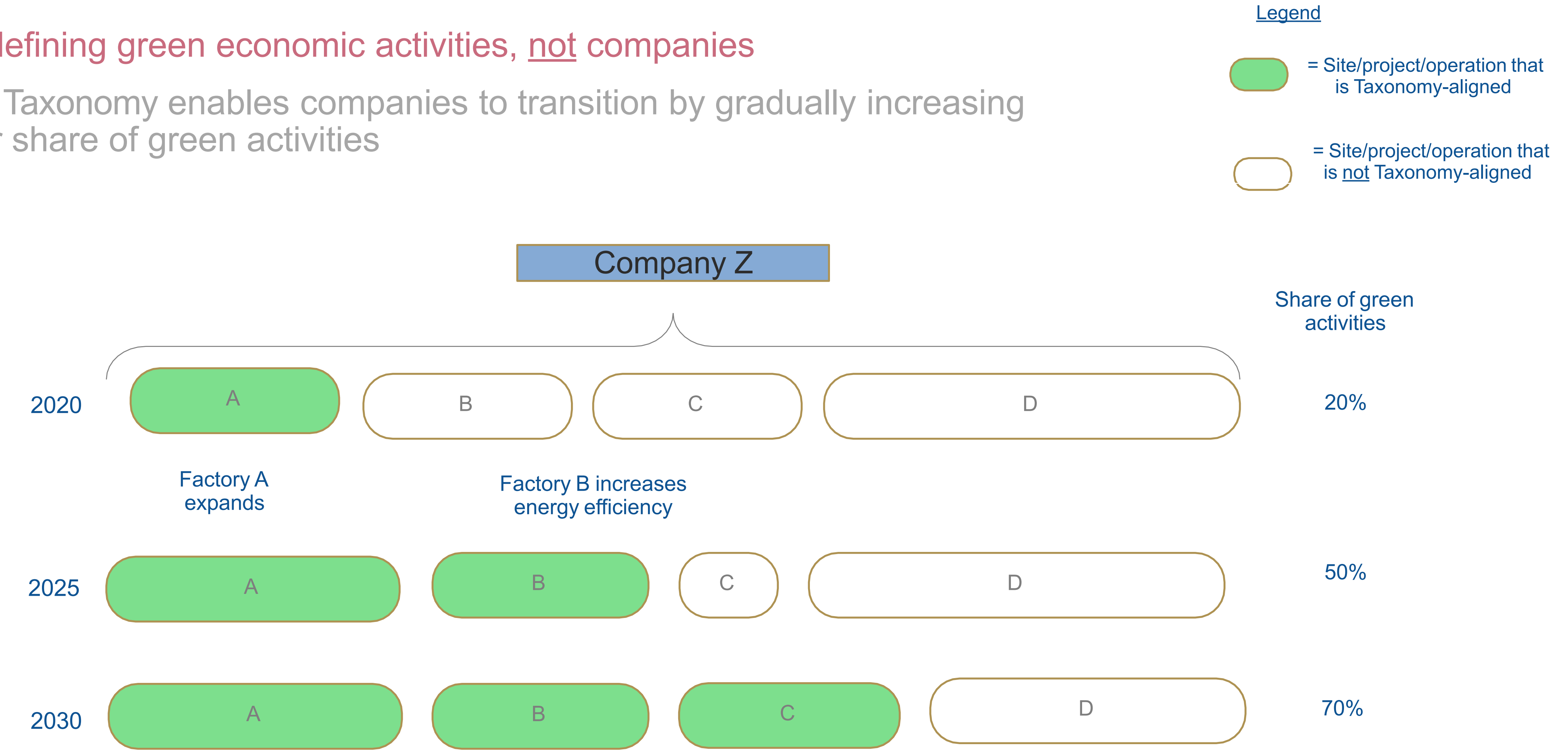
The reasoning:

"The objective is to step up the transition, by drawing on all possible solutions to help us reach our climate goals". Taking account of scientific advice and current technological progress, the Commission considers that there is a role for private investment in gas and nuclear activities in the transition".

Transition finance & tool – can taxonomy help?

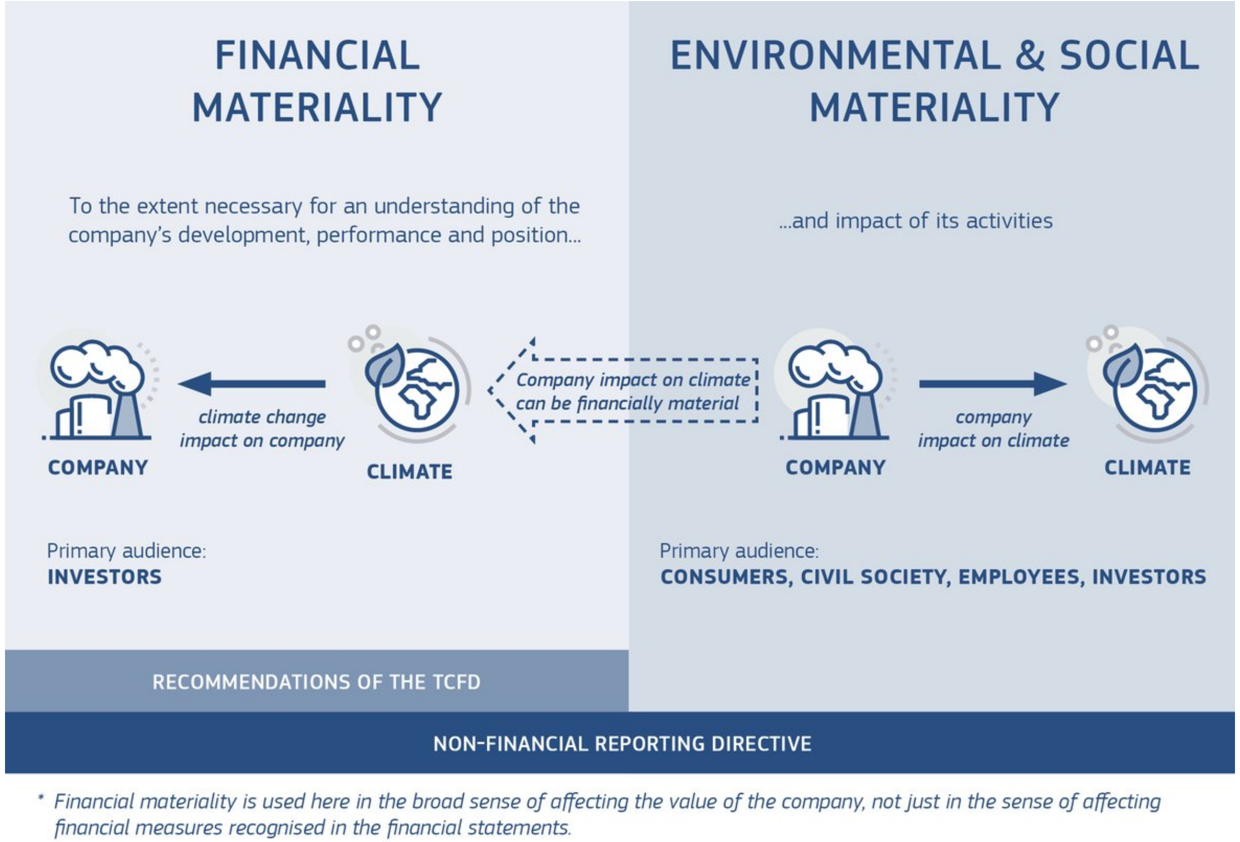
By defining green economic activities, not companies

The Taxonomy enables companies to transition by gradually increasing their share of green activities



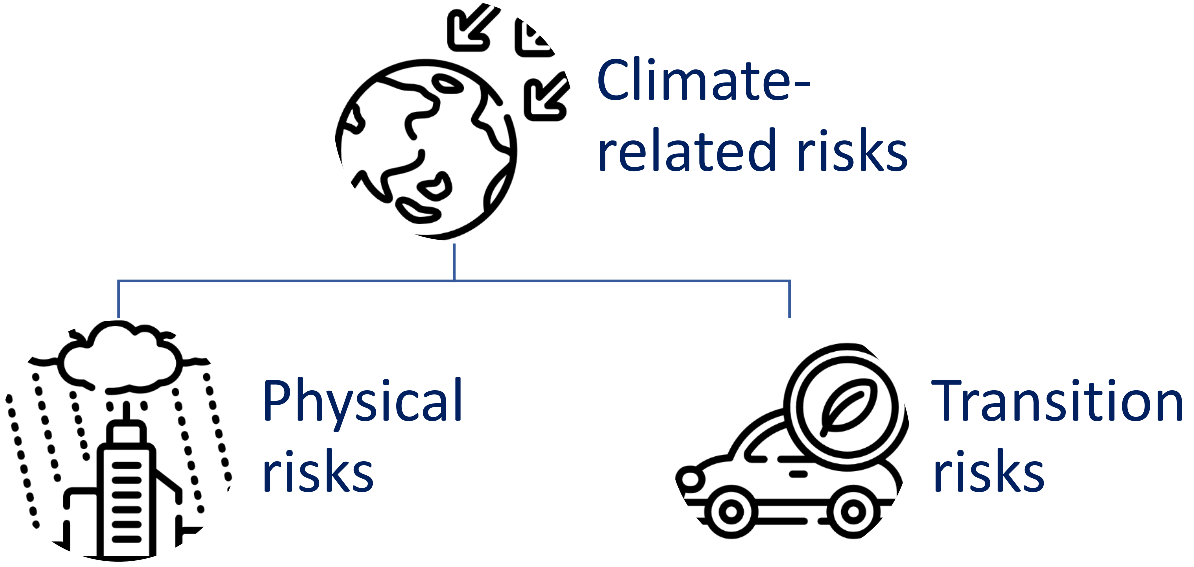
Terminology - Double Materiality

- Materiality: a company is required to disclose information on environmental, social and employee matters, respect for human rights, and bribery and corruption, to the extent that such information is necessary for an understanding of the company's development, performance, position and impact of its activities.
- The reference to the company's "development, performance [and] position" indicates financial materiality, in the broad sense of affecting the value of the company.
- The reference to "impact of [the company's] activities" indicates environmental and social materiality



Source: European Commission's guidelines on reporting climate-related information

Climate-related risks



- Risks to the development, performance and position of a company resulting from climate change, and risks of a negative impact on the climate resulting from the company's activities.
- Prudential regulation mostly deals with the former angle.
- Physical risks are risks to the company that arise from the physical effects of climate change.
  - Acute physical risks, which arise from particular events, especially weather-related events such as storms, floods, fires or heatwaves, that may damage production facilities and disrupt value chains.
  - Chronic physical risks, which arise from longer-term changes in the climate, such as temperature changes, rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.
- Transition risks generally stem from the uncertainty related to the timing and speed of societal and economic adjustment to an environmentally sustainable economy -changes in policies, technology and consumer preferences as the key drivers.

Source: European Commission's guidelines on reporting climate-related information

Greenwashing

- A practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services.
- This practice may be misleading to consumers, investors, or other market participants
- Sustainability-related misleading claims can occur and spread either intentionally or unintentionally and in relation to entities and products that are either within or outside the remit of the EU regulatory framework.

Dimensions	Detailed parameters used to analyse greenwashing risks under each dimension		
Roles	Trigger	Spreader	Receiver
Sustainability topics (and sub-topics) about which a claim is communicated	**Governance and resources** • **Board and senior management role** (governance-related elements of entity-level ESG policies) • **ESG resources and expertise** (incl. ESG dedicated staff)	**ESG strategy** • **ESG strategy, objectives, characteristics** (integration of sustainability in strategy, ESG characteristics, sustainable objectives, taking into account clients' sustainability preferences) • **Sustainability management policies** • **ESG credentials** (qualifications, labels, certificates): adherence to (voluntary) reporting frameworks (e.g. UNPRI, TCFD), labels, ratings, awards, certifications • **Engagement with stakeholders** (proxy voting and active engagement)	**Sustainability metrics and targets** • **ESG performance to date:** ESG results, metrics for real-world impact • **Pledges about future ESG performance: ESG targets** (incl. net zero targets), transition plans
Qualities through which the claim is misleading investors or consumers	**Misleading through provision of information** • Empty claims (exaggeration and/or failure to deliver on claims) • Inconsistency • Irrelevance • Outright lie (false) • Suggestive non-textual imagery and sounds • Suggestive use of ESG-related terminology	**Misleading through omission of information** • Selective disclosure / cherry-picking • Omission or lack of disclosure • Vagueness or ambiguity or lack of clarity • Lack of fair and meaningful comparisons, thresholds and/or underlying assumptions • No proof (unsubstantiated) • Outdated information	
Channels through which the claims are communicated	Regulatory information (e.g. Prospectuses, Financial statements, Mandatory sustainability disclosures, Issuers' press releases etc.)	Marketing materials (including website, social media, presentations to investors)	
	Ratings (inc. ESG ratings) and Benchmarks & Labels Intermediary/advice information	Product information (including internal classifications)	Voluntary reporting, falling outside previous categories

Source: ESMA Progress Reports on Greenwashing in the financial sector

SFDR Overview

1. Objectives & Scope
2. Deep dive into requirements
3. Examples of application
4. Links with other regulations

Sustainability Disclosure for Financial Firms: Overview

Sustainability in disclosures and financial advice

Market Practice

- **Lack of transparency** on how financial entities integrate **sustainability risks**
- **Risk of greenwashing and misselling** in principal-agent relationships
- **Negative externalities** remain largely neither considered, nor priced in

Hampering investments into a more sustainable economy

Regulation on disclosure by financial entities

Disclosures on integration of sustainability risks and impacts of financial products

Financial advice

Include explicit questions on sustainability into suitability tests (MiFID)

Expected Impact

- ✓ Financial entities will be **incentivised to better manage sustainability risks**
- ✓ **Encouraging a shift in retail investor mindsets** by integrating sustainability in product information and financial advice
- ✓ Adverse sustainability impacts will be integrated in due dilligence. This will also **help to gradually price in negative externalities**

Mainstreaming sustainability into risk management and scaling up sustainable investments

Sustainability Disclosure for Financial Firms: Overview

- **The importance of disclosure requirements as a** key step in the sustainability process

- The role of data and the link between sustainability and digitalization

Legal issues: - Scope of the disclosure requirements - Materiality test - Link to the issue of mis-selling	**Regulatory challenges:** - Classification, standardization, and comparability - Data quality, management, and analytics - Harmonization and implementation

- **Sustainability disclosure regulations for banks**

- SFDR, Taxonomy, CSRD, Pillar 3 disclosure, and EU Green Bond Standard

- **Relevant questions:**

- What is the scope of the applicable disclosure regulations?
- To what extent specific rules are needed and do general rules apply to specific sustainability issues?
- How to distinguish quality disclosures from boilerplate disclosures?

Sustainable Finance Disclosure Regulation (SFDR)

- *Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector [2019] OJ EU L 317/1, as amended by Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ EU L 198/13*

- Entry into force of most of the rules by March 2021; the SFDR came into effect on 10 March 2021.

- *Publication of Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 containing technical standards to be used by financial market participants when disclosing sustainability-related information under the Sustainable Finance Disclosures Regulation (SFDR).*

- The requirements started to apply on 1 January 2023
- The Delegated Regulation specifies the exact content, methodology and presentation of the information to be disclosed, improving the quality and comparability of the regulation.

What are the objectives?

Enhancing transparency:

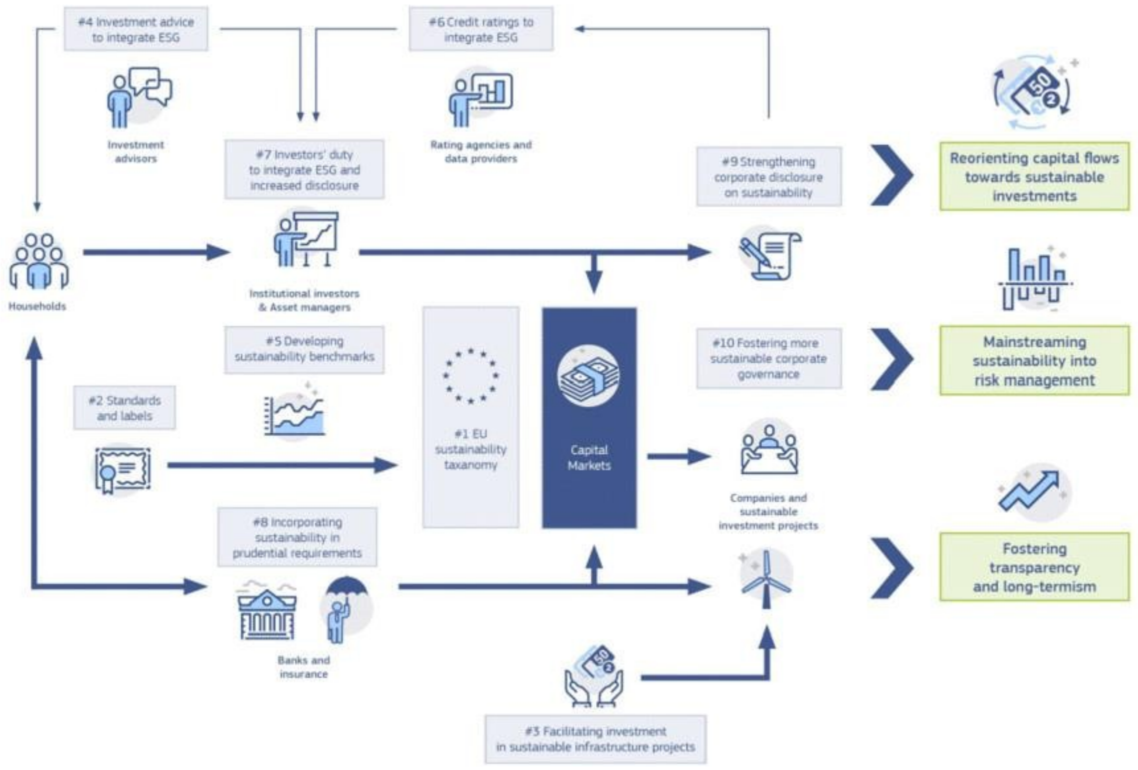
- Allowing investors to make more informed decisions and assess the sustainability profile (including risks) of investment products.

Preventing greenwashing:

- SFDR aims to combat greenwashing by establishing clear disclosure requirements and standards. Financial market participants must provide accurate and reliable information on the sustainability features and risks of their products, ensuring that investors are not misled.

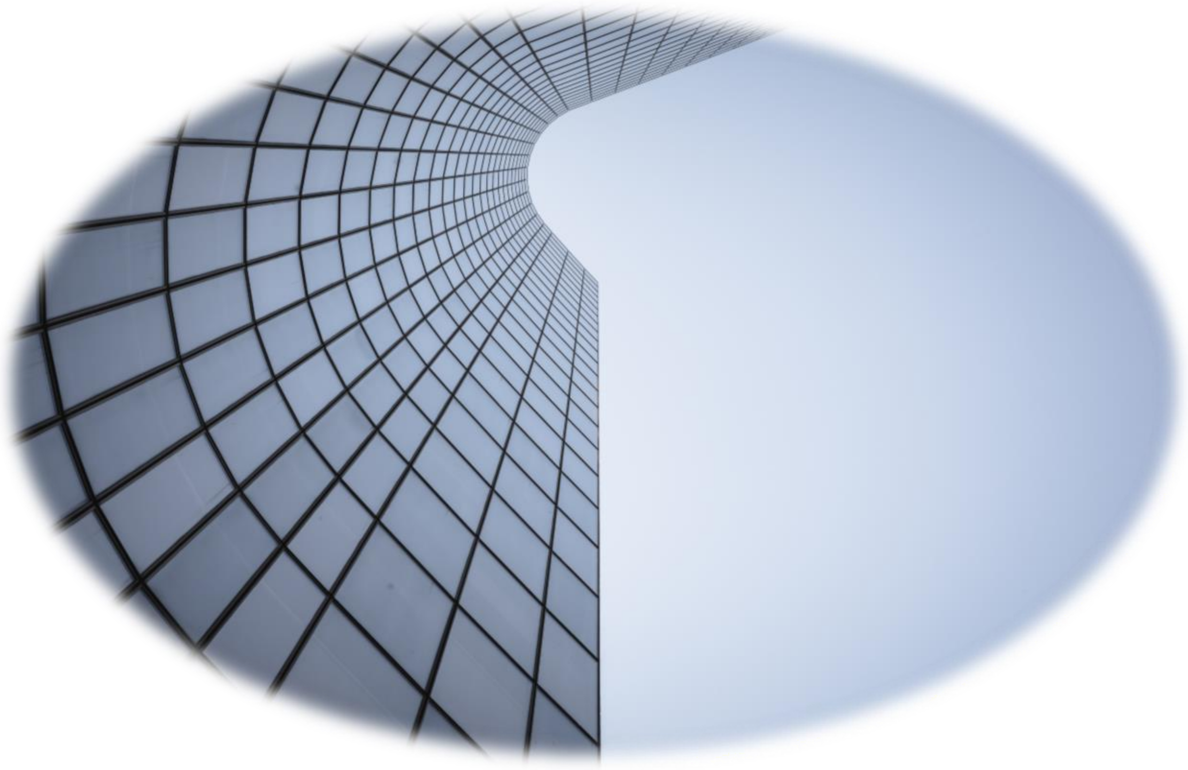
Fostering sustainable investments:

- By disclosing the ESG characteristics of financial products, the regulation helps promote sustainable investments and enables investors to allocate their capital towards more sustainable activities. This, in turn, supports the transition to a more sustainable economy.



Source: European Commission

Who is under scope?



- **SFDR has a very broad scope, covering the following categories:**
- **Financial market participants (FMPs):** This category includes entities such as asset managers, insurance companies (with insurance based investment products), pension providers, and institutions providing portfolio management to clients within the EU.
- **Financial advisers (FAs):** SFDR also applies to entities providing investment advice, including investment firms, credit institutions, and insurance intermediaries that offer investment advice to clients within the EU.
- **Third-country entities**: In some cases, SFDR may also apply to entities located outside the EU if they provide services or market financial products to EU clients.

Key definitions – Article 3

Sustainability risk:	This term refers to an environmental, social, or governance event or condition that, if it occurs, could have an actual or potential material negative impact on the value of an investment.
Sustainability factors	Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
Principal adverse impacts:	These refer to the negative effects on sustainability factors caused by the investment decisions made by financial market participants.
Sustainable investment:	See next slide

A tricky element: sustainable investments

- *“An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”*

A tricky element: sustainable investments

An investment in an economic activity that contributes to an environmental objective, or

an investment in an economic activity that contributes to a social objective,

provided that such investments do not significantly harm any of those objectives

and that the investee companies follow

good governance practices;

As measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy

in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities

in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance

Duality: entity and product level requirements

Entity level	Product level
Policies on the integration of sustainability risks in investment decisions	How sustainability risks are integrated (applies to all products on a comply-or-explain basis!)
Principal adverse sustainability impacts statement	How they consider the product's principal adverse sustainability impacts (mandatory over 500 employees), or whether they do so
Information on how remuneration policies are consistent with the integration of sustainability risks	For products that promote environmental and/or social characteristics (Article 8 products, see later slides), how those characteristics "are met", as well as information on taxonomy alignment
	For products that have sustainable investment as their objective (Article 9 products, see later slides), how that objective is to be attained, as well as information on taxonomy alignment

Requirements related to remuneration

- FMPs and FAs shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks, and shall publish that information on their websites.

Example

Allianz

ARTICLE 3 & 5 OF THE EU SUSTAINABLE FINANCE DISCLOSURE REGULATION (EU SFDR)

ALLIANZ GLOBAL LIFE DAC

AUTHORIZATION:

The content of this document has been published as follows:

Version	Valid from
V1.0	05.03.2021

Article 5 EU SFDR

The Allianz Group remuneration policy which is applicable to all Allianz operating entities addresses the integration of sustainability risks in a number of ways:

1. **Target setting principles:** Selected key performance indicators form the basis for the financial and operational targets for the variable compensation at operating entity level. These targets shall include, where appropriate ESG-related performance indicators and shall be designed to avoid excessive taking of ESG risks. For unit-linked insurance products, AGL's investment decisions are limited to the selection of funds that are available to customers and as a result have been deemed exempt for the purposes of setting such key performance indicators.

2. **Variable remuneration of Allianz Board Members – malus regulation:** Variable remuneration components may not be paid, or payment may be restricted, in the case of a significant breach of Allianz standards and policies, including the Allianz Standard for Reputational Risk and Issues Management and the ESG Functional Rule for Investments. These two internal policies govern the management of ESG risks for investment transactions. For more details on ESG risk management see "disclosure under article 3" and ESG Integration Framework.

For more details on the Allianz remuneration system, see here.

Source: Sustainable Finance_Disclosure_Regulation_Article_3_5.pdf (allianzgloballife.com)

All examples from market participants are for illustration purposes, not to mean any kind of endorsement. All examples might have strengths and weaknesses.

Requirements related to sustainability risks

Entity level

FMPs and FAs are required to develop and disclose their policies on the integration of sustainability risks.

- These policies should outline how sustainability risks are taken into account in investment decisions and how they are incorporated into the entity's risk management framework. The policies should be publicly available on the entity's website. (Art 3)

Product level

Financial market participants shall include descriptions of the following in pre−contractual disclosures:

- (a) the manner in which sustainability risks are integrated into their investment decisions; and
- (b) the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available.

Where financial market participants deem sustainability risks not to be relevant, the descriptions referred to in the first subparagraph shall include a clear and concise explanation of the reasons therefor. (Art 6)

Example

Sustainability risks means an environmental, social or governance (ESG) event or condition that, if it occurs, could cause actual or potential material negative impact on the value of the investment

BNP Paribas S.A., as financial advisor and as financial market participant, takes into account as much as possible sustainability risks when selecting or recommending investment products to its clients.*

BNP Paribas S.A. does so, through the application of the relevant sector policies to securities, bonds and investment products manufactured and actively managed by BNP Paribas S.A. and its subsidiaries, and thus, takes sustainability risks into account via the regular risk-return assessment of each covered product.

With respect to investment products manufactured by other asset managers or product manufacturers, the information on their sector policies is collected and taken into consideration through our proprietary Clover methodology which is explained below.

The occurrence of an environmental, social or governance event can have a negative impact on the value of an investment, insofar as it can affect issuers of investment products in several ways: a decrease in income, an increase in costs, an impairment or damage in the value of the asset, an increase in the cost of capital, or fines and regulatory risks. Such an event may therefore lead to a change in the portfolio investment strategy, for example by excluding certain issuers.

The long-term increase in these sustainability risks with a negative impact on investment product is to be expected, in particular due to climate change.

In addition, BNP Paribas S.A. uses an internal rating called the Clover methodology to assess and compare the sustainability level of these investment products with or without sustainability features.

This proprietary methodology is being deployed within the recommended investment universe. This score is shown on a scale from 0 to 10 which allows BNP Paribas to identify as much as possible sustainability risks and integrate those risks in investment decisions or when advising clients on financial instruments or insurance products.

This rating enables BNP Paribas S.A., as a financial advisor and as a financial market participant, to identify investment products for which the occurrence of an event or situation, in the environmental, social or governance field, could have a real or potential negative impact on the value of these products.

More information on the methodology is available on our website.

However, investment products with a high level of sustainability risk can be invested or recommended to clients if it meets client's other investment objectives, investor profile or diversification needs.
Finally, BNP Paribas S.A. commits maintaining an open, constructive relationship with its external stakeholders (customers, suppliers, sustainable investors, advocacy NGOs, etc.) to achieve three objectives: anticipate change in its business lines and improve products and services, optimise risk management and have a positive impact on society.

Source: SFDR: Sustainability-related disclosures - BNP Paribas (group.bnpparibas)

All examples from market participants are for illustration purposes, not to meant any kind of endorsement. All examples might have strengths and weaknesses.

Requirements related to adverse sustainability impacts

Adverse sustainability impact disclosure:

- FMPs that have 500 or more employees are obligated to disclose the principal adverse impacts of their investment decisions on sustainability factors. These disclosures should cover environmental, social, and employee matters, respect for human rights, and anti-corruption and anti-bribery issues.

Content and methodologies of disclosure:

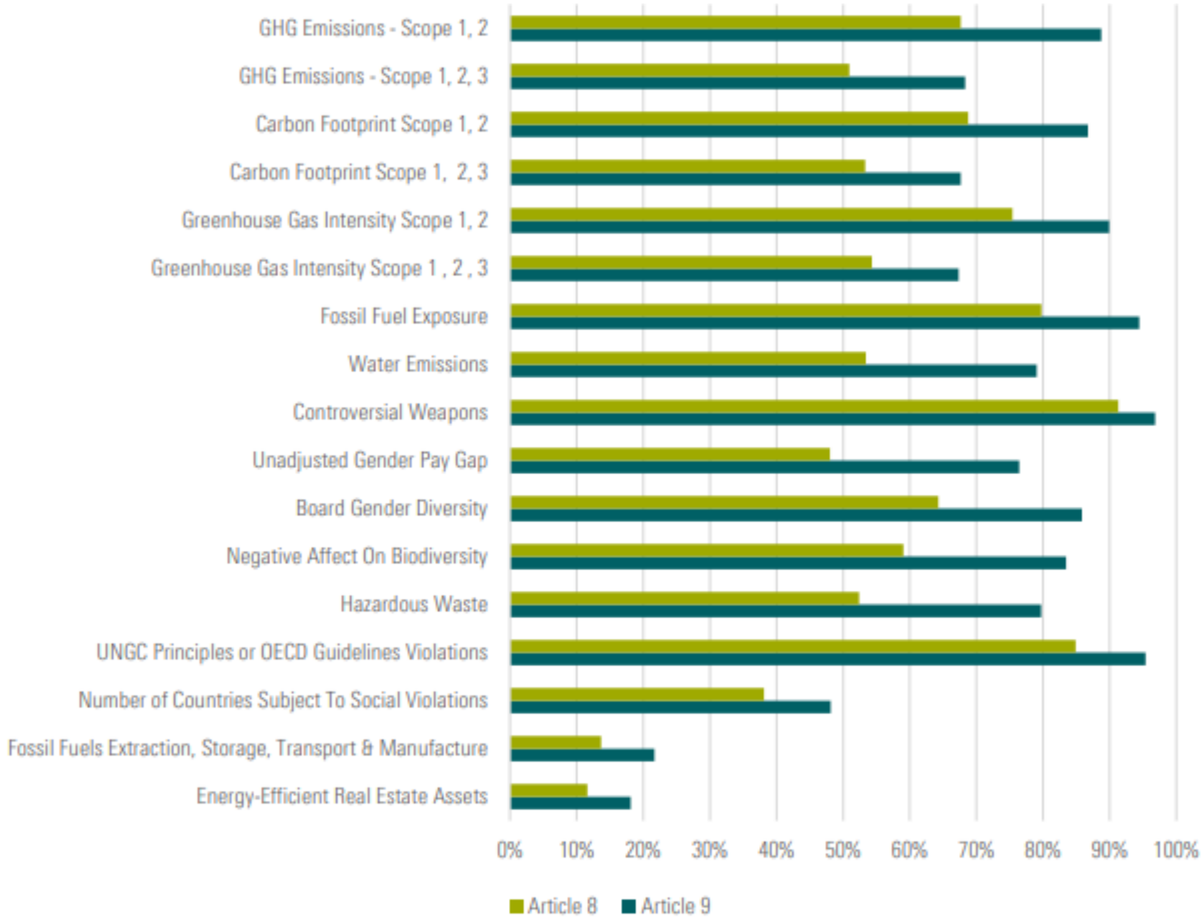
FMPs need to disclose the methodologies used to assess and measure the adverse sustainability impacts, as well as any data and assumptions relied upon. The disclosures should include a description of the actions taken to mitigate or prevent adverse impacts and, if applicable, the alignment with international standards or sustainable investment labels.

Disclosure at the entity and product levels:

- FMPs are required to provide disclosures both at the entity level and, where relevant, at the product level.
- **Entity-level disclosures** should cover the FMP's policies on adverse sustainability impacts, the due diligence processes in place, and the results achieved.
- **Product-level disclosures** should outline the adverse impacts specific to each financial product, including their indicators and related methodologies.

Example

The percentages of surveyed Article 8 and Article 9 funds that consider a sample of PAIs.



Source: Morningstar Direct. Data as of March 2023. The exact numbers for Article 8 and Article 9 funds that reported each of the data fields vary.

Data source: Morningstar

All examples from market participants are for illustration purposes, not to meant any kind of endorsement. All examples might have strengths and weaknesses.

BlackRock.

Sustainable finance disclosure regulation

EU entity level principal adverse impacts statement

Introduction

The statement addresses requirements as set out in the Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (SFDR) specifically relating to the consideration of principal adverse impacts of investment decisions on sustainability factors.

This statement describes and details how the below listed financial market participants and financial advisers assess adverse impacts on sustainability factors as part of their investment processes and advisory services.

Definitions

"**Advisers**" means those persons within the relevant entity providing regulated investment advice to clients by making recommendations in relation to specific financial instruments either presented as suitable or based on consideration of a client's specific circumstances.

"**Portfolio Managers**" means those persons within the relevant entity to whom day to day responsibility for managing a Product has been allocated.

"**Product**" means funds and separate account portfolios.

This principal adverse impacts statement covers the period from 10 March 2021.

BlackRock's approach to principal adverse sustainability impacts

As a global investment manager, BlackRock invests in financial instruments on behalf of its clients within its Products which are managed in line with their investment objectives and constraints. While many of the investments made within Products can have positive impacts on their stakeholders and society, the business activities of certain companies or assets that are held in BlackRock's Products may have adverse impacts on the environment or people ("principal adverse sustainability impacts" or "PASI").

For purposes of this regulation, BlackRock considers PASI in the categories shown below:

Scope

This statement applies to the following BlackRock legal entities (BlackRock) which are deemed financial market participants and financial advisers:

BlackRock Asset Management Deutschland AG
(Legal Identity Identifier: 549300NFJRUOWRTZM703)

BlackRock Asset Management Ireland Limited
(Legal Identity Identifier: 5493004330BCAPB3GT42)

BlackRock (Netherlands) B.V.[1]
(Legal Identity Identifier: 549300NYKTM6QSCOOL42)

BlackRock France S.A.S[1]
(Legal Identity Identifier: 549300J8EENG40ZIIN89)

BlackRock Investment Management (Dublin) Limited[1]
(Legal Identity Identifier: 549300K54WGVFVNLSJ55)

BlackRock (Luxembourg) S.A.
(Legal Identity Identifier: 549300M5A8STIRLYM684)

[1] These legal entities are also deemed financial advisers

Source: 2021 SFDR Principal Adverse Sustainability Impact Statement (blackrock.com)

Product categories

- Products that promote, among other characteristics, social and/or environmental characteristics **(SFDR Article 8)**
- Products that have sustainable investment as their objective **(SFDR Article 9)**
- Note that SFDR was designed to be a **disclosure framework**, not a labelling scheme. End-investors therefore should seek to understand the specific underlying characteristics of products and not treat the Article 8 or 9 designation as a label guaranteeing a certain standard of sustainability performance

	Article 8 – products promoting environmental or social characteristics	Article 9 – products with sustainable investment as their objective
Investments	The SFDR does not prescribe eligible investment targets or a minimum investment threshold.	Underlying assets must qualify as "sustainable investments"[1] (with some exceptions for hedging and liquidity purposes).
Application	"Promotion" is interpreted broadly and encompasses any type of claim that investments consider sustainability characteristics in policies or objectives.	If the objective is a reduction in carbon emissions, the product must track an EU climate benchmark or, where no suitable benchmark exists, come with a detailed explanation of efforts to attain the objective.
Investment practice	The SFDR is neutral as to the design and investing approach of the product.	The SFDR is neutral as to the design and investing approach of the product.

Source: PRI Investor Briefing

Key Article 8 disclosure requirements

Pre-contractual:

- What environmental and/or social characteristics are promoted by this financial product?
- Does this financial product consider principal adverse impacts on sustainability factors?
- What investment strategy does this financial product follow?
- What is the asset allocation planned for this financial product?
- Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

Key Article 8 disclosure requirements

Periodic:

- To what extent were the environmental and/or social characteristics promoted by this financial product met?
- If the product made sustainable investments: What was the objective and how did the sustainable investments contribute to the objective? How did the investments not cause significant harm to other sustainability objectives?
- What were the top investments of this financial product?
- To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?
- What actions were taken to meet the environmental and/or social characteristics during the reference period?

Article 9 products – disclosure requirements

- Largely similar to the template for Article 8 products, with some differences.
- Sustainable investment as mandatory objective
- The underlying assets must qualify as sustainable investments (with some exceptions for hedging and liquidity purposes)
- Specific rules depending on whether an index has been designated as a reference benchmark / has a reduction in carbon emissions as its objective

Example

All examples from market participants are for illustration purposes, not to meant any kind of endorsement. All examples might have strengths and weaknesses.

[Source: SFDR Disclosures MM - Appendix VII - 08 december 2022.pdf (aegon.nl)]

AEGON Asset Management

SFDR Pre-contractual disclosures for financial products

Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Aegon Global Multi Manager Emerging Market Debt Fund

Legal entity identifier: 549300S20UVM70HRVW03

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

☐ **Yes**	☒ **No**
☐ It will make a minimum of **sustainable investments with an environmental objective:** ___%	☐ It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments
☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
	☐ with a social objective
☐ It will make a minimum of **sustainable investments with a social objective:** ___%	☒ It promotes E/S characteristics, but **will not make any sustainable investments**

What environmental and/or social characteristics are promoted by this financial product?

This Fund actively avoids investing in companies and countries identified as having significant adverse impact on biodiversity, environment, human rights and health by adhering to the exclusions list in the Aegon AM MM Sustainability Risks and Impacts

Example

All examples from market participants are for illustration purposes, not to meant any kind of endorsement. All examples might have strengths and weaknesses.

[Source: SFDR Disclosures MM - Appendix VII - 08 december 2022.pdf (aegon.nl)]

AEGON Asset Management

SFDR Pre-contractual disclosures for financial products

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

Does this financial product consider principal adverse impacts on sustainability factors?

Yes, this financial product considers principal adverse impacts (PAIs) where meaningful and data is available, and Third Party Investment Managers are required to do so as well. The product considers PAIs by requiring Third Party Investment Managers to do so through contractual obligations. In addition to considering the PAI indicators, certain issuers are excluded on the basis of their activities and associated adverse impacts. These exclusion criteria are outlined in the Aegon AM MM Sustainability Risks and Impacts Policy applicable to this fund. More information on how PAIs were considered during a specific reporting period can be found in the SFDR periodic disclosure.

What investment strategy does this financial product follow?

The Fund is an actively managed fund investing in emerging markets debt instruments. To achieve the Investment Objective of the Fund, the

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

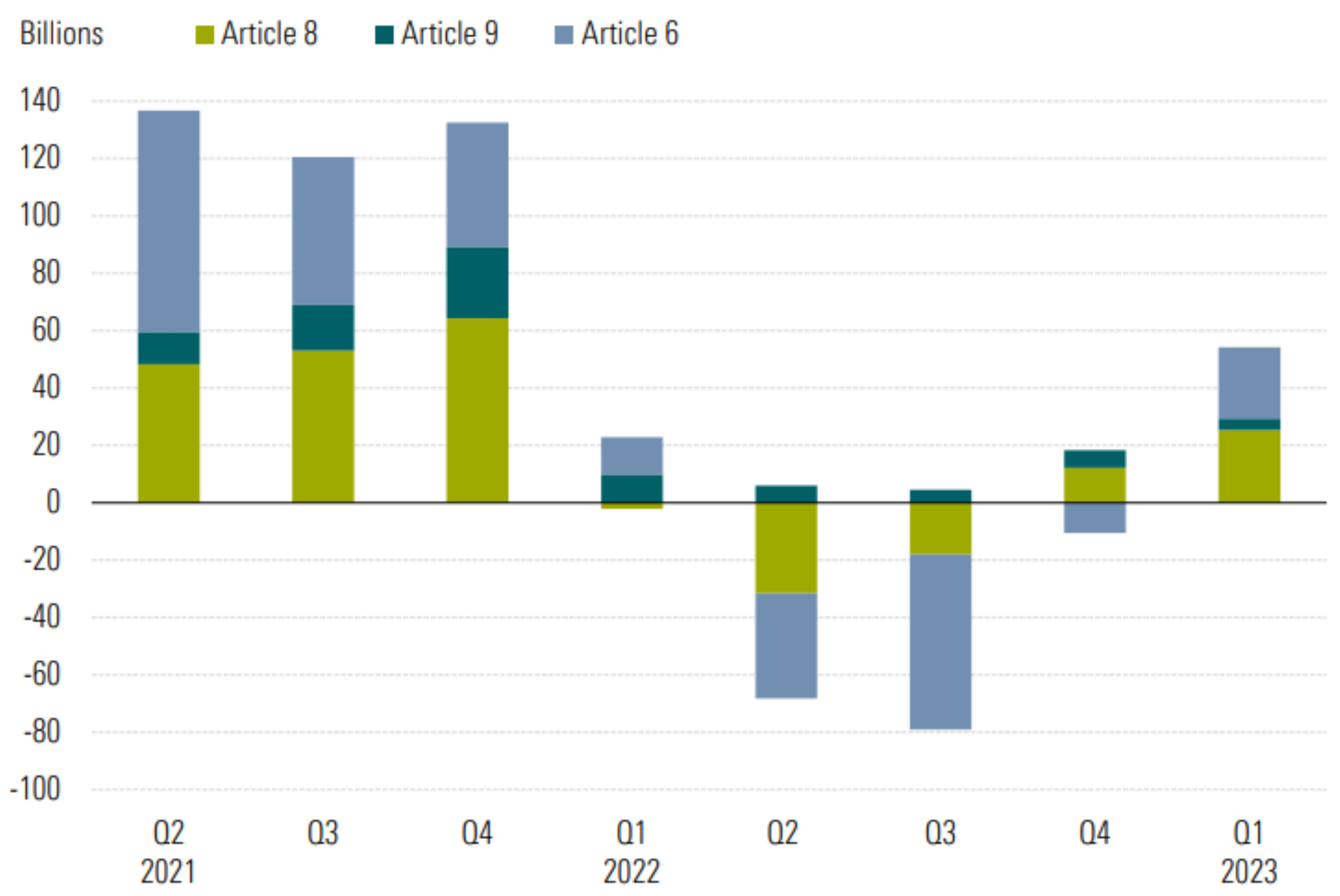
Fund Manager may directly invest the Fund's Assets and/or may select one or more (specialized) Third Party Investment Managers and-/-or Funds to manage (part of) the Fund's Assets. More information about the Fund investment strategy can be found in the Fund specifications.

The strategy is implemented using an investment process as outlined in the Fund Specification.

In addition, the Fund adheres to the Aegon AM MM Sustainability Risks and Impacts Policy. As part of that policy, the Manager conducts annual screening of the broadest investment universe and utilizes third-party ESG data to determine which issuers breach the thresholds and standards defined by the policy on an annual basis. These issuers are added to the exclusion list. The exclusion list integrated in Portfolio Risk Control processes with daily ex-post monitoring to ensure the Third Party Investment Manager(s) adheres to the list.

Regulation strongly shapes the EU funds market…

Quarterly Flows Into Article 8 and Article 9 Funds Versus Article 6 Funds (EUR Billion)



Source: Morningstar Direct. Data as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Data source: Morningstar

Corporate Sustainability Reporting Directive (CSRD) (1/3)

- DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (Text with EEA relevance)
- CSRD modernizes and strengthens the rules concerning the social and environmental information that companies have to report. Entry into force on 5 January 2023. A broader set of large companies, as well as listed SMEs, will now be required to report on sustainability.

Company Size	Timeline for application
Large listed companies, large banks, and large insurance undertakings – all if they have more than 500 employees & large non-EU listed companies with more than 500 employees	**financial year 2024** (first publication in 2025)
Other large companies, including other large non-EU listed companies	**financial year 2025** (first publication in 2026)
Listed SMEs, including non-EU listed SMEs	**financial year 2026** (first publication in 2027) *listed SMEs may opt out of the reporting requirements for a further two years
Non-EU companies that generate over EUR 150 million per year in the EU and that have in the EU either a branch with a turnover exceeding EUR 40 million or a subsidiary that is a large company or a listed SME will have to report on the sustainability impacts at the group level of that non-EU company	**financial year 2028** (first publication in 2029)

Source: https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

Corporate Sustainability Reporting Directive (CSRD) (2/3)

ESRS delegated act

- **Companies subject to the CSRD will report according to European Sustainability Reporting Standards (ESRS), developed by the EFRAG** (known as the European Financial Reporting Advisory Group)
- **Common standards:**
  - **help** companies communicate and manage their sustainability performance
  - **reduce** reporting costs and avoid the use of multiple voluntary standards
  - **solve** the problem of the **accountability gap**

Policy Making timeline

23 November 2022	14 December 2022	9 June 2023	31 July 2023
First set of draft EU sustainability reporting standards published by EFRAG	Publication of the CSRD in the Official Journal	Opening of feedback process of a first set of draft sustainability reporting standards for companies	Adoption of the European Sustainability Reporting Standards (ESRS)

Corporate Sustainability Reporting Directive (CSRD) (3/3)

ESRS delegated act – "Double Materiality" perspective

- **Companies are obliged to report both on**
  → their impacts on people and the environment, and
  → how social and environmental issues create financial risks and opportunities for the company

- **12 ESRS** covering the full range of sustainability issues:

Cross-cutting	Environment	Social	Governance
[ESRS 1] General Requirements [ESRS 2] General Disclosures	[ESRS E1] Climate [ESRS E2] Pollution [ESRS E3] Water and Marine Resources [ESRS E4] Biodiversity and Ecosystems [ESRS E5] Resource Use and Circular Economy	[ESRS S1] Own Workforce [ESRS S2] Workers in the Value Chain [ESRS S3] Affected Communities [ESRS S4] Consumers and End Users	[ESRS G1] Business Conduct

- General Disclosures specify essential information to be disclosed irrespective of which sustainability matter is being considered (mandatory).
- All the other standards and the individual disclosure requirements and datapoints within them are subject to a **materiality assessment**
  → *The company will report only relevant information and may omit the information in question that is not relevant ("material") to its business model and activity. Disclosure requirements subject to materiality are not voluntary.*

Source: https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

European Banking Authority's roadmap on sustainable finance

EBA Roadmap sets out EBA's objective and approach in the area of sustainable finance and ESG

Continuity from the EBA's first action plan but also expansion of the area of work

Overall objective is to build an adequate framework for EU banks and their supervisors to mitigate ESG risks and support an orderly transition to a sustainable economy

- ensuring a thorough but proportionate application
- fostering resilience of the EU banking sector and broader economy
- facilitating convergence at EU and international levels

through a holistic and sequenced approach

Banking package

- CRR2/CRD5 introduced mandates to EBA to:
  - ❑ develop Pillar 3 standards for the disclosures of large listed banks (published)
  - ❑ assess how to reflect ESG risks in risk management and supervision (published), and in the prudential treatment of exposures (on-going).
- The **new banking package** (CRR3/CRD6) will include several ESG-related provisions. Commission included proposals to:
  - ❑ introduce definitions of ESG risks
  - ❑ refer to energy efficiency in the credit risk framework
  - ❑ include ESG risks into supervisory reporting
  - ❑ move forward the deadline of the EBA's Pillar 1 report (i.e. from 28 June 2025 originally in CRR2)
  - ❑ extend Pillar 3 ESG risks requirements to all institutions
  - ❑ explicitly refer to ESG risks in CRD provisions relating to:
    - ICAAP
    - internal governance
    - risk management (including transition plans and internal stress testing)
    - SREP
    - supervisory stress testing.

Definition of ESG risks

- CRR3/CRD6 is expected to define ESG risks (Article 4(1)):
  - ❑ (52d) 'environmental, social or governance (ESG) risk' means the **risk of losses arising from any negative financial impact on the institution** stemming from the **current or prospective impacts** of environmental, social or governance (ESG) factors **on the institution's counterparties or invested assets**;
  - ❑ (52e) 'environmental risk' means the **risk of losses arising from any negative financial impact on the institution** stemming from the **current or prospective impacts** of environmental factors **on the institution's counterparties or invested assets**, including factors related to the transition towards the following environmental objectives:

    (a) climate change mitigation;

    (b) climate change adaptation;

    (c) the sustainable use and protection of water and marine resources;

    (d) the transition to a circular economy;

    (e) pollution prevention and control;

    (f) the protection and restoration of biodiversity and ecosystems;

    Environmental risk includes both physical risk and transition risk'

Pillar 1: Prudential treatment of exposures

Discussion Paper published on 2 May 2022 → Evidence gathering (2022-2023) → Final report (2023) → Commission to decide on legislative proposals

Discussion Paper

- Initial analysis of the Pillar 1 framework for credit institutions & investment firms
- Focus on environmental risks
- Questions for consultation

Evidence gathering

- 43 responses from diverse stakeholders
- Further analysis carried out, including on social risks

Final report

- Mandates specified in Article 501c CRR and Article 34 IFR
- Environmental and social risks

Monitoring of and contribution to developments at Basel level

Principles for the analysis

❑ Holistic approach

Pillar 1 is only a part of the overall prudential framework. Other tools must also be considered:

- accounting framework
- Pillar 2 requirements
- supervisory stress testing and Pillar 2 guidance
- macroprudential buffers

❑ E&S risks considered as risk drivers that impact traditional categories of financial risks

- Credit risk
- Market risk
- Operational risk
- Concentration risk
- Other risks

❑ Risk-based approach

- Objective: maintain the resilience of the financial sector against risks
- Financial sector must remain sound and robust to finance the transition
- Framework should remain evidence-based and risk-based: own funds requirements should reflect real riskiness of exposures
- Prudential framework should not substitute other policy tools
  - most effective tools for dealing with environmental-risk-related externalities lie within the remit of political authorities
  - this being said: a risk-sensitive prudential framework can contribute to channelling funding towards less E&S risky investments

Importance of international coordination

- Environmental risks are **a global challenge** requiring international cooperation & coordination

- At international level, the **Basel Committee on Banking Supervision (BCBS)** is also investigating the extent to which climate-related financial risks can be adequately incorporated in the existing Basel framework

- Basel agreements aim to ensuring international convergence of capital measurement & standards for internationally active banks:
  - Pillar 1 capital requirements are **risk-based**: importance of the **empirical evidence & calibration on historical data**
  - **Level playing field considerations**
  - Regulatory Consistency Assessment Programmes (RCAPs) monitor and assess the adoption and implementation of Basel standards

- Regulators have responded to shortcomings in banking regulation or changes in the banking environment by moving from a uni-dimensional framework (i.e. Basel 1 focused on credit risk) to a multi-restrictive framework (i.e. Basel III), which addresses risks on a more comprehensive basis and in a granular and risk-sensitive way
  - several approaches from internal models approaches to standardised approaches (calibrated relatively to internal models)

- Varying level of appetite in terms of the balance considered appropriate between:
  - the complexity/simplicity of the framework
  - its risk-comprehensiveness, its risk-sensitivity and the detail considered appropriate to promote a level playing field

- → **Removal of some internal models as part of Basel 3** (reduced role of IRB, removal of internal models for CVA risk and OpRisk)

What about environmental risks? Credit valuation adjustments – trading book

- CVA risk is **a form of market risk, as it is realised through a change in the mark-to-market value of a bank's exposures to its derivative and securities financing transactions counterparties**.
- As for CVA, there is a **mispricing concern** when it comes to environmental risks
- **However, environmental risks are risk drivers of other financial risks** and **actual evidence of their impact on financial risks is still limited** → This makes the calibration of Pillar 1 environmental risk metrics very challenging at this stage
- Hence, it is important that banks:
  - develop techniques to identify whether a realised loss is linked to environmental risk drivers
  - develop techniques to identify the extent to which the market prices environmental risks
  - incorporate environmental factors into their own assessments (e.g. pricing of newly originated loans)
- In general, need for banks to incorporate:
  - environment-related forward-looking information in their ECL (Expected Credit Loss) models (IFRS 9 provisioning)
  - environment-related forward-looking information in accounting, including fair value and corresponding prudent valuation requirements

Example of credit risk

- **Internal Ratings Based Approach (IRB)**
  - Banks determine 4 regulatory parameters: the PD, the LGD, the CCF and the Maturity (M)
  - PD, LGD & M are plugged into the applicable RW formula and the exposure value of certain off-balance-sheet items is calculated using the CCF parameters, to eventually derive own funds requirements
- **Standardised Approach (SA)**: risk-weighted exposure amounts = exposure amounts x supervisory risk weights. Supervisory RWs may, in some cases, be determined through **external credit assessments**
- Several stakeholders have suggested introducing environment-related adjustment factors in prudential rules, mostly in the form of **'green supporting'** or **'brown penalising' factors** (GSF or BPF):
  - GSF would reduce capital requirements for environmentally sustainable / 'green' exposures (e.g. energy-efficient mortgages) and/or those that are transitioning towards sustainability by either lowering RWs for relevant asset categories or by applying an adjustment factor below 1 to RWAs
  - BPF would increase capital requirements for environmentally harmful exposures (e.g. fossil fuel entities) either by increasing RWs for certain asset categories or by applying an adjustment factor greater than 1 to RWAs
- The current credit risk prudential framework includes two such non-risk-based supporting factors:
  - SME supporting factor & infrastructure supporting factor (ISF) are EU-specific departures from Basel standards
  - **EBA view**: the continued application of SME SF and ISF are questionable from a prudential point of view

Example of credit risk - Adjustment factors?

- <u>**At this stage**</u>:
- Adjustment factors face both**:**
  - **Conceptual challenges** (e.g. overlap with existing Pillar 1 mechanisms)
  - **Operational challenges** (e.g. calibration, need for international cooperation, granularity needed to differentiate exposures and capture forward-looking aspects such as individual transition plans)
- Those challenges complicate their design and implementation
- Overall, it is key to ensure that the calculation of RWAs is not distorted and to maintain risk-based capital requirements which fulfil their function as safeguards against unexpected losses (Alexander, 2014)

Pillar 2 - ESG risks management and supervision

ESG risk management by institutions:

- **Business strategies and business processes** (EBA Guidelines on loan origination and monitoring)
- **Governance arrangements** (EBA Guidelines on internal governance and on remuneration policies)
- **Risk management process**, including stress testing

Incorporation of ESG considerations within supervisory review and evaluation processes:

- Integration within existing SREP elements
- Longer term perspective
- Principle of proportionality
- Phased-in approach

ESG as one of key supervisory priorities for 2022 and 2023

Further developments

Planned **EBA Guidelines on ESG risk management**

- Criteria, standards, methodologies
- Transition planning – risk-based perspective

Review of **EBA Guidelines on institutions stress testing** to include ESG stress testing

ICAAP

Further developments

Review of **EBA Guidelines on supervisory review and evaluation processes**

- Supervisory assessment of transition plans
- Assessment of risks
- Assessment of capital adequacy

Planned **ESAs Guidelines on supervisory stress testing**

Pillar 3 ESG Disclosure (1/3)

Pillar 3 ESG Risks Disclosure Implementing Technical Standards

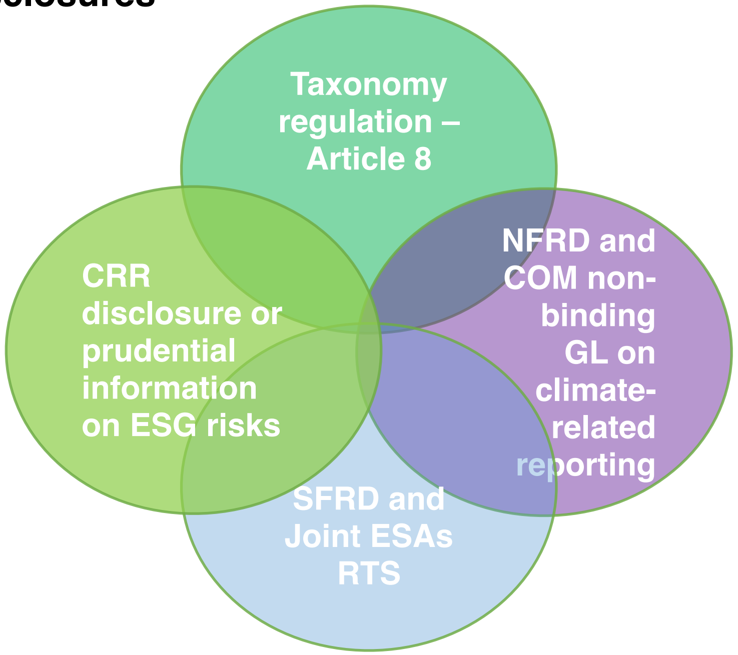
Legal background

- **Article 434a of the Capital Requirements Regulation (CRR)** mandates the EBA to develop **draft implementing technical standards (ITS)** specifying uniform disclosure formats and associated instructions
- On 24 January 2022, the EBA published **the final draft ITS on Pillar 3 disclosures on ESG risks in accordance with Article 449a CRR.**

Transparency and climate risks disclosure

- The ITS set out comparable ***quantitative*** disclosures on climate change related risks and relevant ***qualitative*** information on ESG risks
- Comparable disclosures to show how climate change may exacerbate other risks within institution's balance sheets, how institutions are mitigating those risks and their ratios on exposures financing taxonomy-aligned activities.

EU Legislative initiatives on ESG-related disclosures



** large institutions which have issued securities that are admitted to trading on a regulated market of any Member State are subject to the pillar 3 ESG disclosure requirements*

Pillar 3 ESG Disclosure (2/3)

Final Disclosures (Jan 2022) Pillar 3 ESG ITS – content of the disclosures

Climate risk disclosures

- **Climate transition risk**
- ✓ exposures to high carbon sectors
- ✓ scope 1,2, and 3 emissions
- ✓ RRE and CRE – energy efficiency
- **Climate physical risk**
- ✓ Risk exposures subject to extreme weather events
- ✓ Physical location of assets/ collaterals)

Mitigation actions

- **Transition**
- ✓ Actions that support counterparties in the transition to a carbon neutral economy but that do not meet taxonomy criteria
- **Adaptation**
- ✓ Actions that support counterparties in the adaptation to climate change but that do not meet taxonomy criteria

Green Asset Ration (GAR)

- Information on exposures towards NFRD Corporate and retail financing taxonomy-aligned activities

Banking Book Taxonomy Alignment Ratio (BTAR)

- Info on exposures towards non-NFRD corporates not assessed in the GAR financing taxonomy-aligned activities

Qualitative disclosures

- Qualitative information on environmental, social, and governance risks in line with CRD mandate
- ✓ governance arrangements
- ✓ business model and strategy
- ✓ risk management

Source: https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks

Pillar 3 ESG Disclosure (3/3)

Sequential approach and further development

- The EBA is following a sequential approach in the development of the Pillar 3 ESG ITS

Current ITS

- KPIs and quantitative disclosures on climate-change transition and physical risk, GAR and other mitigation actions.
- Qualitative disclosures on ESG risks

Subsequent ITS

- KPIs and quantitative disclosures on other environmental risks (Taxonomy criteria to cover them by end 2022)

Going forward

- ITS on quantitative information on social and governance risks
- Review of existing disclosures

- In the course of 2024, the EBA will **review the requirements** currently included in the Pillar 3 ESG ITS to understand the relevance of these disclosure requirements at EU and international level.
- In addition, considering the challenges related to the availability of data for institutions, particularly for the stock of loans, the EBA adopted a ***phased in approach*** for the first ITS, with a transitional period for certain disclosures.
- *A **proportionality principle** applies* for the disclosure of information on exposures towards physical risk, which is to be provided 'on a best effort basis.' Also, information on the BTAR shall be disclosed on a best effort basis.

EU Green Bond Standard (1/3)

What is EUGBS

- **A voluntary standard** to help scale up and raise the environmental ambitions of the green bond market
- The establishment of the EUGBS was an action in the 2018 action plan on financing sustainable growth and is part of the European green deal
- Available to any issuer of green bonds, including companies, public entities, and issuers located outside the EU
- For ***issuers*** → a robust tool to demonstrate that they are funding legitimate green projects
- For ***investors*** → assurance for the sustainability of their investments with reduced risks of greenwashing
- **Supporting issuers in transition**: European green bonds can be used to fund long-term projects (up to 10 years) that make an economic activity aligned with the EU Taxonomy

Policy Making Timeline

6 April 2020	12 June 2020	6 July 2021	28 Feb. 2023
Public consultation on the renewed sustainable finance strategy	Targeted consultation on the establishment of an EU green bond standard	Published the legislative proposal for the EU Green Bond Standard (EUGBS)	Political Agreement reached on European green bond standard

EU Green Bond Standard (2/3)

Four Key Requirements

Taxonomy-alignment

- The funds raised by the bond should be allocated fully to projects that are aligned with the EU taxonomy
- at least 85% of the funds raised by the bond are allocated to taxonomy aligned activities (*political agreement)

Transparency

- Full transparency on how the bond proceeds are allocated through detailed reporting requirements
- Several publication requirements apply to private issuers

External review

- All European green bonds must be checked by an external reviewer to ensure compliance with the Regulation and taxonomy alignment of the funded projects

Supervision by the ESMA of reviewers

- External reviewers providing services must be registered with and supervised by the ESMA to ensure the quality of their services and the reliability of their reviews

✓ **Requirements on Transparency and External review**

a. Before issuance, issuers will be required to publish a '*green bond factsheet'* for a '*pre-issuance review'* by an external reviewer
b. Once issued, issuers will be required to publish *yearly reports* showing the allocation of the proceeds
c. Once all the bond proceeds have been allocated, the issuers will be required to obtain a '*post-issuance review*'
d. In addition, a requirement to publish at least *one report on the overall environmental impact* of the bond

✓ **Grandfathering**

If the EU Taxonomy Technical Screening Criteria change after bond issuance, pre-existing criteria can be used for five more years

EU Green Bond Standard (3/3)

Next Steps

- **Standardized template *(for voluntary use)***
- The Commission will publish standardized EU templates for issuers of green bonds and other bonds with environmental objectives to report information on the taxonomy-alignment

→ *The use of templates will reduce administrative burdens and uncertainty for both issuers and investors*

- **Registration and Supervision Regime**
- The Regulation also creates a regime for the registration and supervision of external reviewers.
- *External reviewers assess green bonds in detail and provide confirmation to investors about their environmental credentials.*

- **Two types of flexibility proposed for Sovereign Issuers**
- The ability to use state auditors instead of external reviewers to review the allocation report (existing EU common practice for green bond issuers)
- An exemption from having to demonstrate project-level EU Taxonomy-alignment for certain public expenditure programmes (e.g. funding or subsidy programmes and tax relief schemes)

EEA and Green Bonds

- On 25 May 2022, Iceland, Liechtenstein and Norway submitted a joint EEA EFTA Comment on the legislative proposal for a Regulation on European green bonds.

- While the EEA EFTA States support the general supervisory coordination role of ESMA, they note that the registration and direct supervision of external reviewers, a role the Commission has proposed for ESMA, would benefit from the local expertise of the national supervisory authorities.

- Accordingly, the EEA EFTA States recommend that the competence for registration and direct supervision of external reviewers be performed by the national supervisory authorities, subject to the coordination role of ESMA

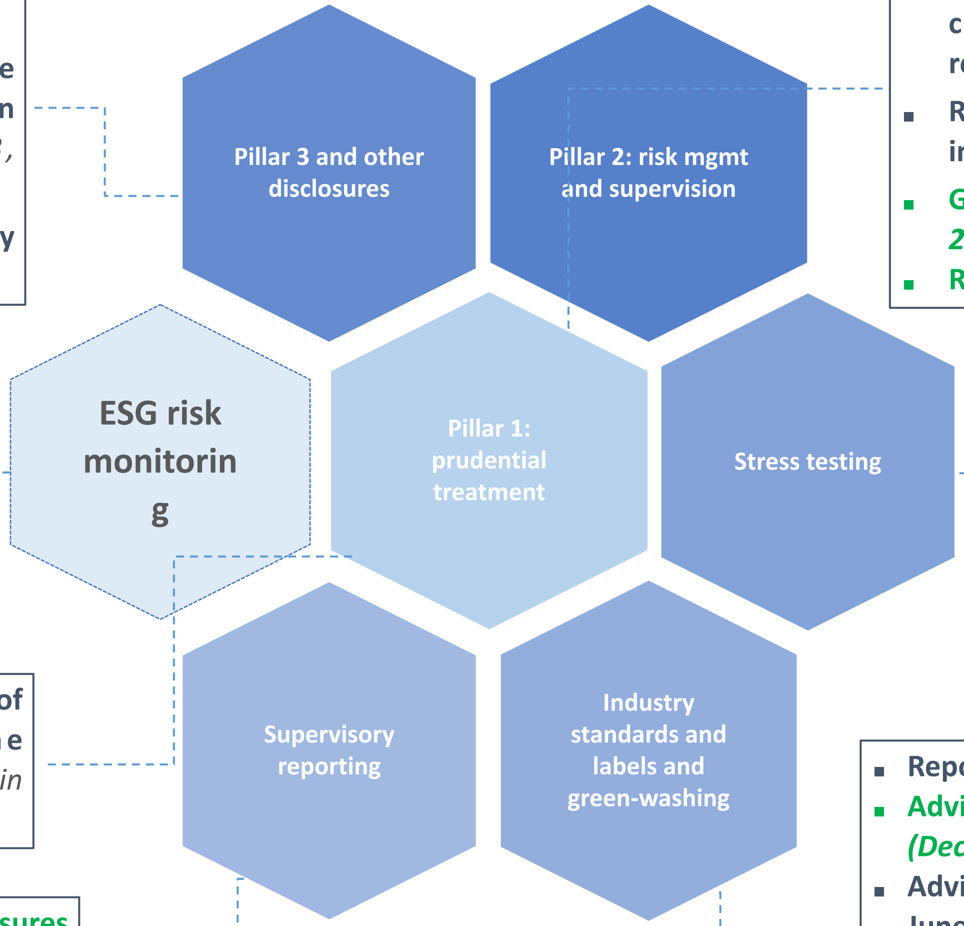
- Source: https://www.efta.int/EEA/news/EEA-EFTA-Comment-European-Green-Bonds-Proposal-529991)

  (PN: No more recent developments on this matter evident from the homepage of EEA/EFTA than the ones from 25 May 2022)

Overview of EBA's publications and upcoming deliverables

- **ITS on Pillar 3 disclosures on ESG risks** *(implementation from 2023, **further updates planned**)*
- **EBA's advice to EU COM on Green Asset Ratio under the Taxonomy**
- **Joint ESAs RTS under Sustainable Finance Disclosure Regulation** *(implementation from 2023, **consultation ongoing**)*
- **Joint ESAs RTS on sustainability disclosures for STS securitisation**

- **Report on ESG risk management and supervision** *(June 2021)*
- **Update of various guidelines to incorporate ESG considerations – loan origination, governance, remuneration**
- **Report on incorporating ESG aspects in supervision of investment firms** *(October 2022)*
- **Guidelines on ESG risk management *(consultation in 2023/2024)***
- **Review of SREP Guidelines**



- **Monitoring of climate-related financial stability risks by EC, ECB, ESAs and NCAs**
- **Monitoring of ESG risks**

- **Pilot climate exercise** *(April 2021)*
- **One-off cross-sector system-wide climate stress test *(launch 2023/2024)***
- **Guidelines on banks' ESG risks stress testing *(consultation in 2023/2024)***
- **Regular EU-wide climate stress tests**
- **Joint ESAs Guidelines on supervisory stress testing**

- **Discussion paper on the role of environmental risks in the prudential framework** *(published in May 2022, **final report in 2023**)*

- **ITS on the inclusion of banks' exposures to ESG risks in supervisory reporting**

- **Report on sustainable securitisation** *(March 2022)*
- **Advice on green retail loans and green mortgages *(December 2023)***
- **Advice on greenwashing (progress report published on 1 June 2023, *final report by May 2024*)**
- **Commission and ESAs expected to assess the need for standards for sustainable loans and bonds**