



Sustainable Finance

Some open policy issues and research questions

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The views in this presentation are my own and do not necessarily reflect those of the EC

Taxonomy Regulation (EU) 2020/852

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Delegated Act on CC mitigation and adaptation criteria

- Adoption by Dec 2020

Delegated Act on criteria for objectives 3-6

- Adoption by Dec 2021

Disclosure obligations

- For **NFRD** financial and non-financial companies
- 31/12/2021: disclosures on **CC** mitigation and adaptation (covering the financial year 2021, publication in the course of 2022)
- 31/12/2022: disclosures on **all objectives** (covering the financial year 2022, publication in the course of 2023)

A science-based Taxonomy

Nuclear

- TEG unable to come to a conclusion
- Not included in CC Delegated Act
- Regulation calls on the EC to further assess
- JRC tasked with drafting a report by 2021 based on input from expert group

Taxonomy for objectives 3-6:

- Water and marine resources
- Circular economy
- Pollution
- Biodiversity and ecosystems

Brown Taxonomy

Social (and governance?) dimensions

EU Green Bond Standard: legislative initiative?

Inception impact assessment and call for feedback (closed)

The Commission launched an inception impact assessment and a call for feedback to explore the possibility of a legislative initiative for an EU Green Bond Standard.

Targeted consultation on the EU GBS

Based on the outcome of the consultation, the ultimate decision on how and in what legal form to take forward the EU GBS will be made, in the context of the Renewed Sustainable Finance Agenda.

Extended to **2 October 2020**

Green Bonds

Open questions

- Are green bonds issued at a (negative) premium?
 - Some mixed evidence available
 - If yes, why? Same issuer, same credit risk...
 - Non-monetary motives? 'Taste for green'?
 - This opens up a Pandora's box for mainstream Economics...
- Green bonds excellent tool for transition
 - Brown companies among largest issuers of green bonds
- Tricky when assessing the exposure of a portfolio to transition risk
 - Relevant for the discussion on green supporting/brown penalizing factor
- Role of green bonds to support green recovery

SF Disclosure Regulation (EU) 2019/2088 (SFDR)

Disclosure obligations for financial market participants

**ESAs Consultation
on draft RTS**

Closed on Sep 1

Application

March 2021

Entity-level disclosures

- Principal adverse impacts (DNSH) that investment decisions have on sustainability factors
- Statement on due diligence policies in relation to:
 - climate and the environment
 - social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
- No explicit link with Taxonomy

SF Disclosure Regulation (EU) 2019/2088 (SFDR)

Disclosure obligations for financial market participants

Product-level disclosures: amended by Taxonomy Regulation

SFDR		Taxonomy	
Art. 9	Financial products that contribute to an environmental objective	Art. 5	Need to disclose: i) info on the environmental objective(s) ii) how and in what proportion the investments are Taxonomy-aligned activities
Art. 8	Financial products that promote environmental characteristics	Art. 6	Art. 5 applies + statement: <i>For the part not aligned with the Taxonomy, the Taxonomy is not considered (incl. DNSH)</i>
Art. 7	All other financial products	Art. 7	Statement: <i>The Taxonomy is not taken into account</i>

Review of Non-Financial Reporting Directive

Inception impact assessment

Policy options:

- Continue with non-binding guidelines
- Explore standards
- Revise and strengthen the provisions e.g. on scope, detail, enforcement...

Consultation

Closed in June - outcome available

Adoption

Q1 2021

Sustainability disclosures

Open issues

- NFRD scope: extend to (listed) SMEs?
 - Reporting burden – may discourage listing?
 - However, who does not disclose risks being cut out from investment portfolios
- Ex-ante policy assessment:
 - How big is a too big reporting burden? Cost/benefit analysis
 - Do relevant data exist? In which form?
- Ex-post policy assessment:
 - Did transparency increase? E.g., are ESG ratings more aligned?

EU Ecolabel for Financial Products

Updated Technical Report (TR3.0)	November 2020, with revised criteria
Final criteria and vote by EU Ecolabel board	April 2021
Adoption of COM Decision	Q4 2021
Initial product scope	UCITS, (R)AIFs, Unit-linked insurance, Deposit accounts
Criteria	<ol style="list-style-type: none">1. Investment in green economic activities2. Exclusions based on environmental aspects3. Social and governance aspects4. Engagement5. Retail investor information

Financial markets

Open issues

- Ecolabel(s)
 - Tradeoff ambition/take up, issue of diversification
 - Market impact of ecolabels: do ecolabelled funds increase AUM? How do they look like?
 - Environmental impact of ecolabels: 'impact investing'?
 - Shareholder engagement: target, measurement, verification and assessment
- Pricing of climate risk
 - Can we still use past performance to project expected returns? Another Pandora's box...
 - Also relevant for financial institutions climate stress testing/prudential requirements

Keep in touch



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Thank you



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