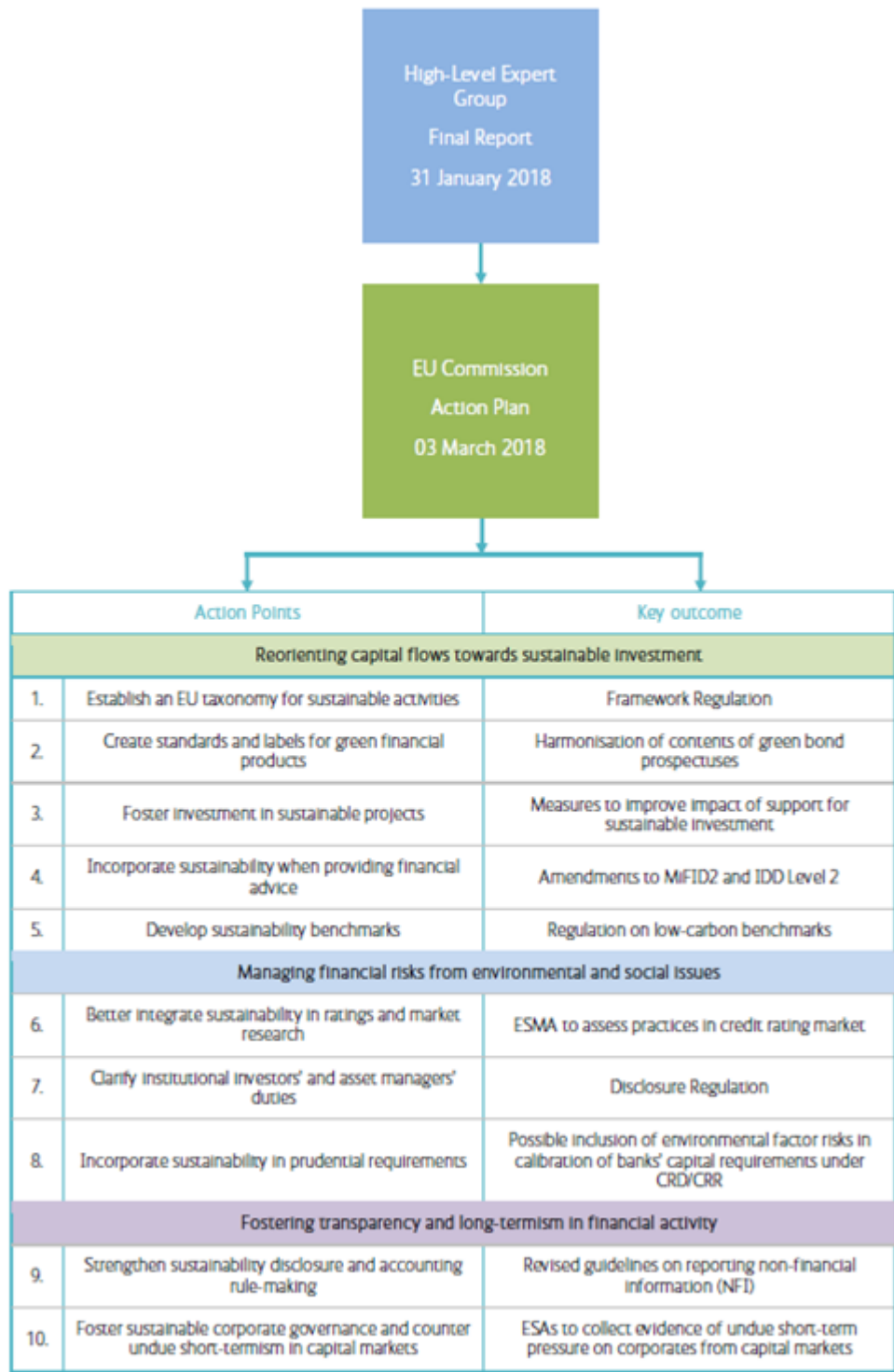


Sustainable Financing and ESG Investment



Last updated: 12/09/2019

Please click on the image below to download the Action Plan table.



Overview

- The European Commission's [Action Plan on Financing Sustainable Growth](#), published in March 2018, sets out objectives and key actions to promote a re-orientation of private capital flows towards sustainable investments.

The Action Plan's **objectives** are to:

- ▪ re-orient capital flows towards sustainable investment to achieve sustainable and inclusive growth
- ▪ manage financial risks stemming from climate change, natural disasters, environmental degradation and social issues, and
- ▪ foster transparency and long-termism in financial and economic activity.

To meet those objectives, the Commission has identified the following **key actions**:

- ▪ establish a common language for sustainable finance
- ▪ create standards and labels for green financial products
- ▪ clarify institutional investors' and asset managers' duties to ensure they consider ESG issues in their investment decision process
- ▪ incorporate sustainability in prudential requirements, and
- ▪ strengthen sustainability disclosure and improve accounting rule-making.

To further the Action Plan, the Commission has proposed three legislative initiatives of relevance to asset managers:

- ▪ a Regulation on the establishment of a framework to facilitate sustainable investment (the Framework Regulation)
- ▪ a Regulation on disclosures relating to sustainable investments and sustainability risks (the Disclosures Regulation), and
- ▪ delegated Regulations on suitability assessments, amending existing Level 2 measures for MiFID2 and the Insurance Distribution Directive.

We explain the background to the Action Plan and, for each legislative initiative, provide:

- ▪ links to the important documents and legal texts
- ▪ key industry responses to the initiatives, and
- ▪ a timeline showing what progress has been made, allowing you to plan ahead for implementing required changes

The Framework Regulation

- As part of its Action Plan, in May 2018 the European Commission (Commission) adopted a proposal for a [Regulation on the establishment of a framework to facilitate sustainable investment](#) (the Framework Regulation).

In June 2018, the Commission set up a [Technical Expert Group on Sustainable Finance](#) (TEG) to assist it in determining, among other things, whether an economic activity is environmentally sustainable under the Framework Regulation.

What does it propose?

The Framework Regulation establishes a classification system (or taxonomy) to establish market clarity on what economic activities should be considered "sustainable". The Commission considers this necessary due to the range of interpretations by member states as to what counts as a sustainable investment.

Standardising the concept of environmentally sustainable investment across the EU is, therefore, expected to both

- o ▪ facilitate investment in environmentally sustainable economic activities, and
- o ▪ enable economic operators to attract investment from abroad more easily.

Where does it stand?

On adoption, the proposal (along with that for a Disclosure Regulation - see the section below) was submitted to the European Parliament (EP) and to the Council of the EU (Council) to develop their positions ahead of the start of trilogue negotiations.

- o ▪ **European Parliament:**

ECON's and ENVI's [draft report](#) on the Framework Regulation was published in November 2018, with amendments from members of the Committee being tabled the following month. Further amendments to the draft report can be viewed [here](#) and [here](#).

ECON and ENVI subsequently voted on which of these amendments were included into a [Final Report](#). After further amendments, the EP approved the [Final Report](#) at a plenary session.

- o ▪ **Council of the EU:**

The Council has not yet agreed its position on the Framework Regulation.

The TEG Final Report on the EU taxonomy was [published](#) on 18 June 2019. The TEG also launched a [call for feedback](#) on the report which is open until 13 September 2019. Based on the responses received, it will submit advice to the Commission on the next steps to be taken.

To see a more detailed tracker of the Framework Regulation please see [here](#).

To see key industry comment on the Framework Regulation please see [here](#).

The Disclosures Regulation

- In May 2018, the Commission adopted a proposal for a [Regulation on disclosures relating to sustainable investments and sustainability risks](#) (the Disclosures Regulation) as part of its Action Plan.

What does it propose?

The Disclosures Regulation would impose transparency and disclosure requirements on

- o ▪ financial market participants, and
- o ▪ insurance intermediaries providing insurance advice on insurance-based investment products (IBIPs) and financial advisors

concerning the integration of sustainability risks in the investment decision making process and advisory processes.

The proposal addresses the concern that disclosures in the above sectors remain unsystematic and inconsistent, making it more difficult for end-investors to make informed investment choices.

The Disclosures Regulation would require firms to:

- ▪ publish written policies on the integration of sustainability risks in their investment decision making process
- ▪ make pre-contractual disclosures on how they incorporate sustainability risks in their businesses
- ▪ comply with pre-contractual transparency rules on sustainable investments
- ▪ publish a description of the sustainable investments target and information on the methodologies used to assess, evaluate and monitor the effectiveness of investments
- ▪ describe in periodical reports the specification of the impacts of sustainable investments by means of relevant sustainability indicators, and
- ▪ ensure that all the information published on their websites is kept up-to-date, including a clear explanation of any amendments to the published information.

The Commission also highlights that the Disclosures Regulation is not intended to regulate market access for these financial market participants and financial advisors but, rather, to govern the way their activities are carried out.

Where does it stand?

On adoption, the proposal (along with that for the Framework Regulation – see above) was submitted to the EP and to the Council for these to develop their positions ahead of trilogue negotiations.

- ▪ **European Parliament:**

ECON's [draft report](#) on the Disclosures Regulation was published in August 2018. Amendments to the report were tabled in September 2018. ECON subsequently voted on which of these amendments were included into a [final report](#). The final report was then tabled for plenary and adopted by the EP in November 2018.

ECON and ENVI subsequently voted on which of these amendments were included into a Final Report. After further amendments, the EP approved the Final Report at a plenary session in March 2019.

- ▪ **Council of the EU:**

The Council adopted a [General Approach](#) on the Disclosures Regulation in December 2018.

After trilogue negotiations with the Commission, the Council and the EP reached an agreement on 07 March 2019.

On 18 April 2019, the EP [adopted](#) the agreed text in plenary. The next step is for the Council to endorse the text before being published in the Official Journal. The Disclosures Regulation will enter into force 20 days after its publication in the Official Journal.

To see a more detailed tracker of the Disclosures Regulation please see [here](#).

To see key industry comment on the Disclosures Regulation please see [here](#).

- **Delegated Regulations on incorporating environmental issues into advice given by investment firms and insurance distributors**

The Commission also proposed Delegated Regulations on suitability assessments that would amend level 2 measures already in place under

- o
 - MiFID2, and
- o
 - the Insurance Distribution Directive.

What do they propose?

The Commission's proposals reflect HLEG's recommendation that investment advisers should ask about, and then respond to, the preferences of retail investors' regarding the sustainable impact of their investments, as a routine component of financial advice. This would involve clarifying an investor's ESG preferences by means of a questionnaire.

Where do they stand?

The Commission submitted its proposed Delegated Regulations to the EP and Council for their scrutiny. At the same time, the Commission opened a public consultation on its proposals.

The consultation period for both proposed Delegated Regulations closed on 21 June 2018.

In January 2019, the Commission published updated draft Delegated Regulations, which can be viewed [here](#) and [here](#). The Commission also [noted](#) that the Delegated Regulations can only be officially adopted once provisions under the Disclosures Regulation have been agreed upon at EU level.

To see a more detailed tracker of the Delegated Regulations please see [here](#).

To see key industry comment on the Delegated Regulations please see [here](#).

Other developments - EU

- In addition to the proposals outlined in the Action Plan, in July 2018 the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) were [mandated](#) by the Commission to provide technical advice - by 20 April 2019 - assisting the Commission with potential amendments to, or the introduction of, delegated acts regarding the integration of sustainability risks and sustainability factors under:
 - o
 - UCITS
 - o
 - AIFMD
 - o
 - Solvency II
 - o
 - MiFID2 and
 - o
 - The Insurance Distribution Directive (IDD)

ESMA consultations - UCITS, AIFMD, MIFID and CRAs

In light of the call for advice, in December 2018 ESMA published a [consultation paper](#), “On integrating sustainability risks and factors in the UCITS Directive and AIFMD”.

The consultation paper set out proposed changes in a number of areas under the UCITS and AIFMD framework to ensure that UCITS Management Companies and AIFMs capture sustainability risks in their due diligence process and risk management.

The consultation period closed on 19 February 2019.

This was also accompanied by similar consultations in respect of [MiFID II](#) and [Credit Rating Agencies](#). These closed on 19 February 2019 and 19 March 2019 respectively.

On 03 May 2019, ESMA published its Final Report containing technical advice to the Commission regarding [UCITS and AIFMD](#) and [MIFID II](#). The Final Report regarding Credit Rating Agencies is expected to be published in July 2019.

EIOPA consultation - Solvency II and IDD

In November 2018, EIOPA published a [consultation paper](#), “On Technical Advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD”.

The consultation period closed on 30 January 2019.

On 03 May 2019, EIOPA published its [Final Report](#) containing technical advice to the Commission regarding Solvency II and IDD.

Next steps

The Commission will now consider the advice submitted to it by ESMA and EIOPA and decide whether to amend existing level 2 measures or to adopt new delegated acts.

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