

Outline of CP and context of hearing

29 April 2021 – open hearing on taxonomy-related product disclosures CP

Gráinne McEvoy, Central Bank of Ireland, Chair of the Joint Committee Sub-Committee on Consumer Protection and Financial Innovation



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Consultation paper on taxonomy-related product disclosures

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- ❑ Regulation (EU) 2020/852 (Taxonomy Regulation) added new empowerments for the ESAs on product-related environmental taxonomy disclosures by amending Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation, “SFDR”)
- ❑ The Taxonomy Regulation places new disclosure obligations on financial market participants making available financial products making sustainable investments with environmental objectives
- ❑ ESAs published consultation paper with draft amending RTS on 17 March 2021 for response by 12 May 2021
- ❑ Product level disclosures are intended to make use of the entity-level taxonomy disclosures under Article 8 of the Taxonomy Regulation
- ❑ Financial products making sustainable investments in taxonomy-aligned activities will have additional disclosures apply to them, replacing some of the previous obligations under the original SFDR RTS

Consultation paper on taxonomy-related product disclosures

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□ Today's hearing will cover:

1. The drafting technique chosen (amending RTS) and how the rules are applied to different categories of products
 2. The content of the CP cover specific taxonomy-related information in financial products' pre-contractual and periodic disclosures:
 - The identification of the environmental taxonomy objectives of the product
 - A representation of “**how and to what extent**” the activities invested in are aligned with the EU Taxonomy
 3. The amended templates proposed in the CP for the pre-contractual and periodic disclosures
- The ESAs aim to produce a final report with final draft RTS in June or July 2021

Structure of RTS and product application

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Lievijne Neuteboom, EBA



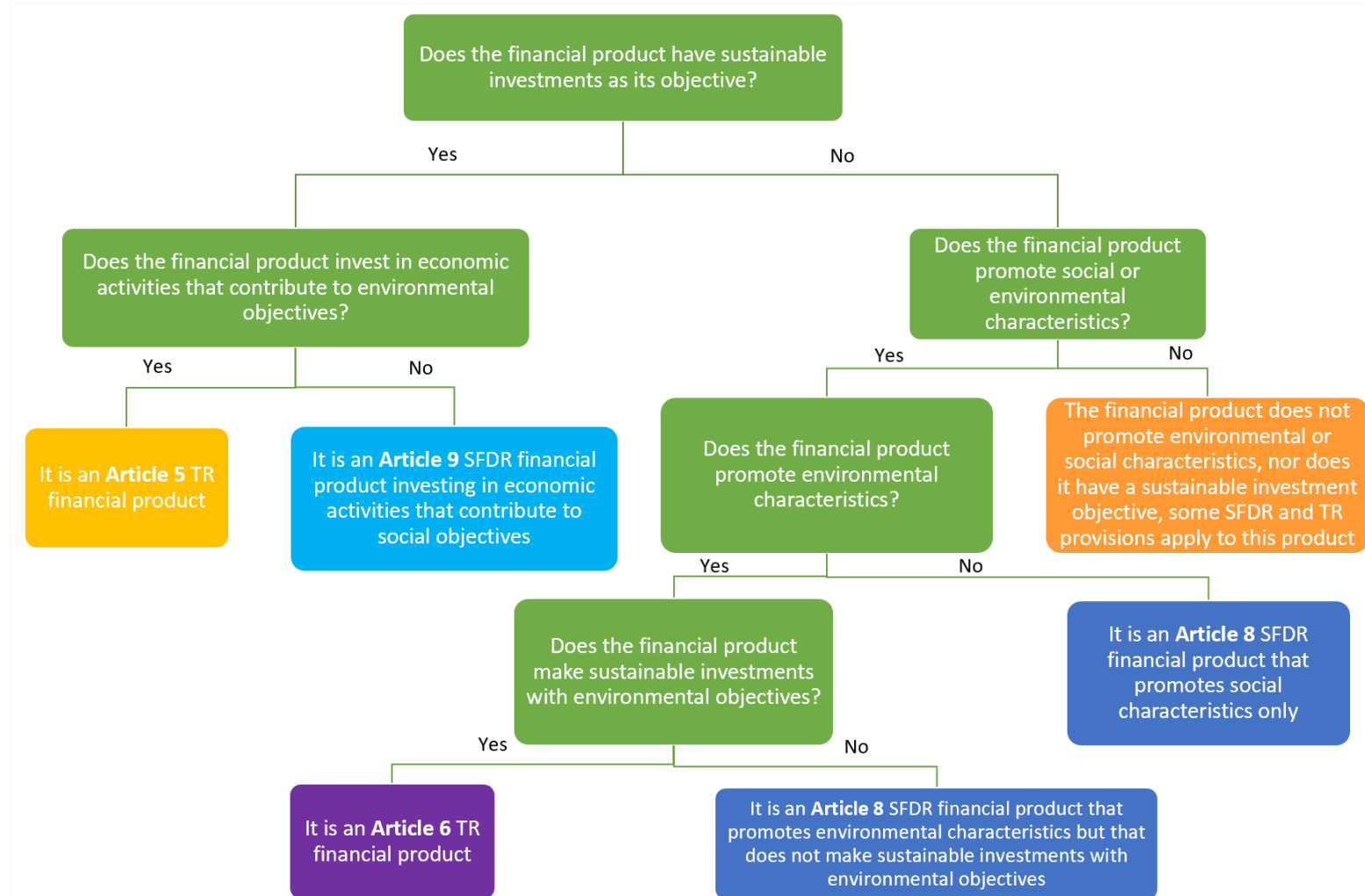
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Single rulebook for sustainable product disclosures

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- ❑ The ESAs saw merit in creating a “single rulebook” for sustainability disclosures under the SFDR and Taxonomy Regulation. The aim of the draft RTS in the consultation paper is to allow a common set of requirements for all sustainability related products in scope of SFDR and TR.
- ❑ To achieve this the draft RTS in the consultation paper:
 - ❑ amends the SFDR RTS published by the ESAs on 4 February 2021;
 - ❑ makes specific disclosure requirements for the subset of products that make sustainable investments with environmental objectives according to the EU Taxonomy within the broader set of SFDR RTS sustainability disclosures; and
 - ❑ amends the existing SFDR RTS mandatory product templates for pre-contractual and periodic disclosures to provide new sections for the relevant subset of products.

Article 5 – 6 TR financial products



“How and to what extent” – graphical representation, KPI and statement

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Patrik Karlsson, ESMA



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“How and to what extent” (1): Graphical representation and KPI

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- ❑ The consultation paper proposes a graphical representation of the taxonomy-aligned investments of the product, calculated based on a key performance indicator (KPI)
- ❑ The KPI is aligned with the ESAs technical advice on Article 8 TR disclosures – the share of the product’s investments that are directed at funding economic activities that qualify as environmentally sustainable, in relation to the total investments of the product
- ❑ Numerator:
 - Green bonds issued under the EU GBS
 - Green bonds issued under non-EU standards can count up to their taxonomy contribution
 - Debt and equity instruments of investee undertakings weighted by the taxonomy-aligned activity contribution of underlying undertakings
 - ❖ Non-financial investee undertaking taxonomy-alignment to be measured by one of turnover, capital expenditure or operational expenditure
- ❑ Denominator consists of all investments of the financial product

Hypothetical example KPI for an investment fund

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- ❑ Paragraphs 30-35 of the CP: hypothetical investment fund (with EUR 200 million AuM) taxonomy alignment calculation
- ❑ **Numerator** (EUR 30 million):
 1. EUR 50 million shares and bonds in non-financial undertakings with 10% taxonomy-aligned activities = EUR 5 million
 2. EUR 50 million shares and bonds in financial undertakings with 10% taxonomy-aligned activities = 5 EUR 5 million
 3. EUR 10 million EU GBS green bonds
 4. EUR 20 million non-EU GBS green bonds with 50% of proceeds going to taxonomy-aligned activities = EUR 10 million
- ❑ **Denominator:** EUR 200 million
- ❑ **Investments fund's extent of taxonomy alignment: 15% (EUR 30 million / EUR 200 million)**

“How and to what extent” (2): Statement of taxonomy alignment

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- ☐ The disclosures include a requirement to self-certify through a statement that the activities funded by the product are aligned with the criteria of Article 3 of the TR:
 - Significant contribution to an environmental objective
 - Not significantly harming any environmental objectives
 - Respecting Article 18 TR social safeguards
 - Complying with technical screening criteria of TR Delegated Acts
- ☐ Disclosure of whether statement has been reviewed by third party
- ☐ The statement would replace the broader Article 2(17) SFDR DNSH in the SFDR RTS by way of derogation
- ☐ But: only available for the sustainable investments of Article 5-6 TR products that are EU taxonomy-aligned
- ☐ For sustainable investments that are not EU taxonomy-aligned, disclosures should follow the broader Article 2(17) SFDR DNSH requirements in the SFDR RTS (i.e. take account of PAI indicators)

Amended templates

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Ursula Bordas, EIOPA



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Amended templates (1)

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- ☐ High-level objectives:
 - ☐ **Reduce information asymmetries**
 - ☐ Tackle **greenwashing**
 - ☐ **Standardised templates** are crucial to ensure **comparability** across financial products, for instance to facilitate informed choices by end investors
- ☐ Draft RTS in the consultation paper:
 - ☐ **Amends the mandatory templates** from SFDR RTS (4.02.2021) adding new sections for art 5 TR and art 6 TR products.
 - ☐ **Adds a new section on sustainable investments:**
 - ☐ **share of EU taxonomy aligned investments** and
 - ☐ share of sustainable investments that are not aligned with the Taxonomy
 - ☐ Amends table on 1st page to specify inclusion of Taxonomy-aligned investments

Amended templates (2)

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Product name/legal identifier: [complete]

Sustainable investment objective

[tick when relevant]

This product:

☐

Promotes environmental or social characteristics, but does not have as its objective a sustainable investment

☐

It does not invest in sustainable investments

☐

It invests partially in sustainable investments

☐

In activities aligned with the EU Taxonomy

☐

In activities not aligned with the EU Taxonomy



Has sustainable investment as its objective. 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.

☐

In activities aligned with the EU Taxonomy

☐

In activities not aligned with the EU Taxonomy



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Amended templates (3)

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To which objectives do the sustainable investments contribute to and how do they not cause significant harm?



What is the minimum share of investments aligned with the EU Taxonomy?

*[include subsection for financial products referred to in Article 5 of Regulation (EU) 2020/852]
[where information relating to the taxonomy alignment of investments is not readily available from public disclosures by investee companies, include details of how equivalent information was obtained directly from investee companies or from third party providers]*



The graph below shows in green the minimum percentage of investments that are aligned with the EU Taxonomy.




[include statement and question for financial products referred to in Article 5 of Regulation (EU) 2020/852 with sustainable investments in environmentally sustainable economic activities]

The minimum percentage of investments of the financial product that are aligned with the EU Taxonomy are made in environmentally sustainable economic activities.

Was this statement subject to an external review by a third party?

- ☐ Yes: *[include name of third party]*
- ☐ No

The symbol  refers to investments that finance activities considered sustainable under the EU Taxonomy. The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.

● **What methodology is used for the calculation of the alignment with the EU Taxonomy and why?** *[indicate methodology chosen for non-financial investee companies and the reasons for that choice including how that choice is appropriate for investors in the financial product]*

● **What is the minimum share of transitional and enabling activities?**

Amended templates (3)

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What is the minimum share of sustainable investments that are not aligned with the EU Taxonomy?

[include subsection (i) where the financial product includes sustainable investments with social objectives; or (ii) for financial products referred to in Article 5 of Regulation (EU) 2020/852 where the financial product invests in economic activities that are not environmentally sustainable economic activities]

Why does the financial product invest in economic activities that are not environmentally sustainable? *[include question for financial products referred to in Article 5 of Regulation (EU) 2020/852 where the financial product invests in economic activities that are not environmentally sustainable economic activities]*

How will sustainable investments contribute to a sustainable investment objective and not significantly harm any sustainable investment objective?

How have the indicators for adverse impacts on sustainability factors been taken into account?

Are sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:



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Consumer testing (5)

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- ☐ Consumer testing conducted in April in cooperation with the **Netherlands Authority for the Financial Markets** (AFM), with its Consumer Panel, and the **Warsaw School of Economics** (Szkola Główna Handlowa w Warszawie – SGH) in Poland.
- ☐ Two different groups: age, country, professional experience.
- ☐ Positive aspects: the pie-chart tested very well
- ☐ Concerns were raised by respondents over:
 - ☐ Length, complexity and density of text
 - ☐ Use of jargon such as term “taxonomy”, alternatives suggested such as “classification”, Principal Adverse Impact
 - ☐ Possible repetitions across sections
 - ☐ Layout and attractiveness of the template, choice of colours and complexity of introductory table in Page 1

Consumer testing (5)

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More details from the consumer testing in the Netherlands

Statements on disclosure [Q4]

