
The proposed regulation forms an integral part of the EU’s efforts, under its Capital Market Union project, to connect finance with needs of the economy and the EU’s sustainable development agenda. It should facilitate investments in sustainable projects and assets across the EU and it is part of a package put forward by the European Commission on 24 May 2018 and announced in its Action Plan on Sustainable Finance in March 2018. The aim is to include environmental, social and governance (ESG) considerations in the decision-making process of investors and asset managers. The proposed regulation sets out uniform criteria for determining whether an economic activity is environmentally sustainable. It further sets out a process involving a multi-stakeholder platform to establish a unified EU classification system (EU taxonomy) based on a set of specific criteria, in order to determine which economic activities are considered sustainable. The aim is a gradual development of an EU taxonomy for climate change and environmentally and socially sustainable activities. Such EU taxonomy will be embedded in future EU law and provide the basis for using that classification system in different areas (e.g. standards, labels, sustainability benchmarks). Currently Member States differ in their interpretations as to what counts as sustainable investment. Some Member States have in place labelling schemes or market led initiatives to determine what qualifies as green for investment purposes, others do not have any rule in place but are likely to legislate in this field based on their own definition of sustainable investments.

Sustainable finance – EU taxonomy

Briefing by Stefano Spinaci, April 2019

In March 2018, under its capital markets union project and as part of a broader initiative on sustainable development, the European Commission presented an action plan on sustainable finance, in order to facilitate investments in sustainable projects and assets across the EU. On 24 May 2018, the Commission put forward a package of three proposals, including measures to create a sustainable taxonomy for the EU; provide clarity on how environmental, social and governance factors can be taken into account for investment decisions; and establish low-carbon benchmarks. The first proposal focuses on establishing a common language for sustainable finance (e.g. a unified EU classification system, or taxonomy) through a framework of uniform criteria, as a way to determine whether a given economic activity is environmentally sustainable. The proposed regulation would launch a gradual process for the establishment of a uniform EU framework of criteria, which would be used to classify the environmental sustainability of economic activities. This process would involve the cooperation of the Commission with a broad range of stakeholders, in order to define the taxonomy framework and to keep it evolving in step with the rapidly evolving concept of sustainability. The taxonomy would be developed through delegated acts. On 11 March 2019, the ECON-ENVI joint committee adopted a report on the Commission proposal, calling for a number of changes. On 28 March 2019, the Parliament adopted its position at first reading. On 25 September 2019, the Council agreed a common position on the dossier. After trilogues, European Parliament and Council reached an agreement on 18 December 2019. The new rules will be formally adopted by the Council and the Parliament following the legal and linguistic revision of the text.

A framework to facilitate sustainable investment

'At a glance' note by Stefano Spinaci, March 2019

Sustainable finance broadly refers to the process of taking due account of environmental, social and governance considerations in investment decision-making. There is currently no clear, standard international framework that defines what is 'sustainable' and what is 'green', even though a number of market initiatives have emerged.
The existing lack of clarity could be exacerbated if Member States were to take action in this area individually, with no coordination. Diverse classification systems would increase market fragmentation and raise competition problems, making it more difficult and costly for investors to understand what is and what is not accepted as sustainable. The proposed regulation aims to establish a standard EU-level definition of what qualifies as an environmentally sustainable economic activity for investment purposes, by introducing a clear, unified EU taxonomy and the related concept of environmentally sustainable investment. A taxonomy set through EU legislation would aim to positively impact the financing of sustainable activities: just as energy labelling guides consumer choices towards energy-efficient products, such a taxonomy would aim to guide investor choices towards investments in environmentally sustainable activities.

**Sustainable finance and disclosures: Bringing clarity to investors**
*Briefing by Stefano Spinaci, April 2019*

The Commission established in December 2016 a High-Level Expert Group (HLEG) to develop a comprehensive EU strategy on sustainable finance. One of the advices by the expert group was to define institutional investors’ and asset managers’ duties regarding sustainability and the need for improved disclosures. Directive (EU) 2016/2341 represented a first step towards a more concise disclosure framework in the financial services sector in relation to ESG factors. Nevertheless, there was still a lack of transparency on how institutional investors, asset managers and financial advisors considered sustainability risks in their investment decision-making or advisory processes. The Regulation (EU) 2019/2088 introduced additional requirements to existing elements of the relevant legislation: a dedicated and coherent disclosure framework on the integration of ESG risks, the framework should be used by financial intermediaries both in investment decision-making or advisory processes, end-investors should receive coherent and comparable disclosures on financial product and services relating to sustainable investments and sustainability risks.

**Sustainable finance and benchmarks: Low-carbon benchmarks and positive-carbon-impact benchmarks**
*Briefing by Stefano Spinaci, April 2019*

The Commission established in December 2016 a High-Level Expert Group (HLEG) to develop a comprehensive EU strategy on sustainable finance. The expert group pointed out that indexes and benchmarks have an indirect but important impact on investments. According to the expert group, many investors rely on benchmarks in particular in portfolio allocation and to measure the performance of financial products. The Regulation (EU) 2019/2089 introduced further requirements for making the methodology of the new categories of benchmarks transparent, so as to make them more comparable and to enable better decision making by portfolio managers. The regulation is aimed to avoid the risk of “greenwashing” by ensure an accurate and reliable representation of economic realities, easily understood by all stakeholders. The objective is to enhance the ESG transparency of benchmark methodologies and to put forward standards for the methodology of low-carbon benchmarks in the Union. This regulation has amended the Benchmarks regulation by introducing rules establishing and governing the provision of low carbon and positive carbon impact benchmarks. Harmonised rules for low carbon benchmarks should lead to more efficient channelling of investment towards sustainable assets.
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