UKSIF
UK Sustainable Investment and Finance Association

The European Commission Action Plan on Financing Sustainable Growth

To address the recommendations contained in the final report of the High Level Expert Group on Sustainable Finance (HLEG), the European Commission has proposed ten overarching actions. These are outlined below.

NB this is a summarised document. The full version of the Commission's Action Plan is available here.

Action 1: Establishing an EU classification system for sustainable activities

1. Subject to the outcome of its impact assessment, **the Commission will table a legislative proposal in Q2 2018 that will ensure the progressive development of an EU taxonomy** for climate change, environmentally and socially sustainable activities, building on existing work, where relevant. The aim is to embed the future EU sustainability taxonomy in EU law and provide the basis for using such a classification system in different areas (e.g. standards, labels, green-supporting factor for prudential requirements, sustainability benchmarks). The proposal will include tools allowing such a classification system to be established and regularly updated.

2. In addition, and as a first intermediate step, **the Commission will set up a technical expert group on sustainable finance**. The group will be asked, on the basis of broad consultation of all relevant stakeholders, to publish a report providing a first **taxonomy with a particular focus on climate change mitigation activities by Q1 2019**. This is to be extended to **climate change adaptation and other environmental activities by Q2 2019.** These reports will be a building block in the Commission's progressive development of the EU sustainability taxonomy and will in the meantime be an initial point of reference for investment in climate change-related and environmental activities.

Action 2: Creating standards and labels for green financial products

1. As a first step, **the Commission's technical expert group on sustainable finance** will be responsible, on the basis of the results of a public consultation, for preparing **a report on an EU green bond standard by Q2 2019, building on current best practices.**

2. Within the framework of the Prospectus Regulation, **the Commission will specify by Q2 2019 the content of the prospectus for green bond issuances** to provide potential investors with additional information.

3. T**he Commission will explore the use of the EU Ecolabel framework for certain financial products**, to be applied once the EU sustainability taxonomy is adopted.

Action 3: Fostering investment in sustainable projects

Building on the ongoing efforts to **reinforce advisory capacity**, including for **developing sustainable infrastructure projects**, the Commission will take **further measures** that will improve the efficiency and impact of instruments aiming at sustainable investment support in the EU and in partner countries.

Action 4: Incorporating sustainability when providing financial advice

Subject to the outcome of its impact assessment**, the Commission will amend the MiFID II and IDD delegated acts in Q2 2018** to ensure that sustainability preferences are taken into account in the suitability assessment. Based on these delegated acts, **the Commission will invite the European Securities Markets Authority (ESMA) to include provisions on sustainability preferences in its guidelines on the suitability assessment** to be updated by Q4 2018.

Action 5: Developing sustainability benchmarks

By Q2 2018, the Commission intends to (i) adopt delegated acts, within the framework of the Benchmark Regulation, **on the transparency of the methodologies and features of benchmarks** to allow users to better assess the quality of sustainability benchmarks; and **(ii) put forward, subject to the outcome of its impact assessment, an initiative for harmonising benchmarks comprising low-carbon issuers,** based on a sound methodology to calculate their carbon impact, to be put into operation once the climate taxonomy is in place. The Commission's technical expert group will, on the basis of consultation of all relevant stakeholders, publish a report on the design and methodology of the low-carbon benchmark by Q2 2019.

Action 6: Better integrating sustainability in ratings and market research

1. **Starting in Q2 2018, the Commission will engage with all relevant stakeholders** to explore the merits of amending the Credit Rating Agency Regulation to mandate credit rating agencies to explicitly integrate sustainability factors into their assessments in a proportionate way to preserve market access for smaller players. Commission services will report on the progress made on this by Q3 2019.

2. **The Commission invites ESMA** to: (i) assess current practices in the credit rating market by Q2 2019, analysing the extent to which environmental, social and governance considerations are taken into account; (ii) include environmental and social sustainability information in its guidelines on disclosure for credit rating agencies by Q2 2019 and consider additional guidelines or measures, where necessary.

3. **The Commission will carry out a comprehensive study on sustainability ratings and research by Q2 2019**. It will analyse methodologies and explore aspects like the market structure of sustainability ratings and market research services, the depth and breadth of sustainability research assessments and scoring, and the independence of those research/scoring providers. The study will also explore possible measures to encourage sustainability ratings and market research.

Action 7: Clarifying institutional investors' and asset managers' duties

Subject to the outcome of its impact assessment, **the Commission will table a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations by Q2 2018.** The proposal will aim to (i) explicitly require institutional investors and asset managers to integrate sustainability considerations in the investment decision-making process and (ii) increase transparency towards end-investors on how they integrate such sustainability factors in their investment decisions, in particular as concerns their exposure to sustainability risks.

Action 8: Incorporating sustainability in prudential requirements

1. **The Commission will explore the feasibility of the inclusion of risks associated with climate and other environmental factors in institutions' risk management policies and the potential calibration of capital requirements of banks as part of the Capital Requirement Regulation and Directive.** The aim would be to take into account such factors, where this is justified from a risk perspective, to safeguard the coherence and effectiveness of the prudential framework and financial stability. Any recalibration of capital requirements, based on data and the assessment of the prudential risk of banks' exposures, would need to rely on and be coherent with the future EU taxonomy on sustainable activities (see Action 1).
2. **In Q3 2018, the Commission will invite the European Insurance and Occupational Pensions Authority (EIOPA) to provide an opinion on the impact of prudential rules for insurance companies on sustainable investments,** with a particular focus on climate change mitigation. The Commission will take this opinion into account in the report to be submitted to the European Parliament and Council by 1 January 2021 under the Solvency II Directive.[1]

Action 9: Strengthening sustainability disclosure and accounting rule-making

1. **The Commission is launching a fitness check of EU legislation on public corporate reporting, including the NFI Directive** to assess whether public reporting requirements for listed and non-listed companies are fit for purpose. It will include the evaluation of sustainability reporting requirements and the prospects for digitalised reporting. The Commission will launch a public consultation on this in Q1 2018. The conclusions of the fitness check will be published by Q2 2019 and will inform any future legislative proposals to be adopted by the Commission.

1 Article 77f and 111 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance.

2. **By Q2 2019, the Commission will revise the guidelines on non-financial information.** Building on the metrics to be developed by the Commission technical expert group on sustainable finance, the revised guidelines should provide further guidance to companies on how to disclose climate-related information, in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD)[2] and the climate-related metrics developed under the new classification system (see Action 1). Subsequently, the guidelines will be amended to include other environmental and social factors.
3. **By Q3 2018, a European Corporate Reporting Lab will be established as part of the European Financial Reporting Advisory Group (EFRAG),** to promote innovation and the development of best practices in corporate reporting, such as environmental accounting. In this forum, companies and investors can share best practices on sustainability reporting, such as the climate-related disclosure in line with the TCFD's recommendations.
4. In terms of disclosure by asset managers and institutional investors, as part of the Commission's legislative proposal in Action 7, **they would be requested to disclose how they consider sustainability factors in their strategy and investment decision making process,** in particular for their exposures to climate change-related risks.
5. **The Commission will request EFRAG, where appropriate, to assess the impact of new or revised IFRSs on sustainable investments.**[3] The Commission will also ask EFRAG to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. In Q4 2018, the Commission will report, taking into account EFRAG current work, on the impact of IFRS 9 on long-term investments and explore improvements to the standard for the treatment of equity instruments.
6. Within the fitness check of EU legislation on public corporate reporting, **the Commission will also evaluate relevant aspects of the International Accounting Standards Regulation**. It will in particular **explore how the adoption process of IFRSs** can allow for specific adjustments to standards where they are not conducive to the European public good, e.g. where the standards could pose an obstacle to long-term investment objectives.

Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets

1. To promote corporate governance that is more conducive to sustainable investments, by Q2 2019, the Commission will carry out analytical and consultative work with relevant stakeholders to assess: (i) **the possible need to require corporate boards to develop and disclose a sustainability strategy,** including appropriate due diligence throughout the supply chain, **and measurable sustainability targets**; and (ii) **the possible need to clarify the rules according to which directors are expected to act in the company's long-term interest**.
2. **The Commission invites the ESAs to collect evidence of undue short-term pressure** from capital markets on corporations and consider, if necessary, further steps based on such

2 https://www.fsb-tcfd.org/
3 This will be done as part of EFRAG analysis of the European public good criterion.

evidence by Q1 2019. More specifically, the Commission invites ESMA to collect information on undue short-termism in capital markets, including: (i) portfolio turnover and equity holding periods by asset managers; (ii) whether there are any practices in capital markets that generate undue short-term pressure in the real economy.

1. ESTABLISHING AN EU CLASSIFICATION SYSTEM FOR SUSTAINABILITY ACTIVITIES		
Subject to the results of its impact assessment, Commission legislative proposal on the development of an EU taxonomy for climate change, environmentally and socially sustainable activities	**(L)**	Q2 2018
Report of the Commission technical expert group providing a taxonomy for climate change mitigation activities	**(NL)**	Q1 2019
Report of the Commission technical expert group providing a taxonomy for climate change adaptation and other environmental activities	**(NL)**	Q2 2019

2. CREATING STANDARDS AND LABELS FOR GREEN FINANCIAL PRODUCTS		
Report of the Commission technical expert group on a standard for green bonds	**(NL)**	Q2 2019
Commission delegated act on the content of the prospectus for green bond issuances	**(L2)**	Q2 2019
Assessment of applying the EU Ecolabel to financial products	**(NL)**	As of Q2 2018

3. FOSTERING INVESTMENT IN SUSTAINABLE PROJECTS
Building on the ongoing efforts to reinforce advisory capacity, including for developing sustainable infrastructure projects, the Commission will take further measures that will improve the efficiency and impact of instruments aiming at sustainable investment support in the EU and in partner countries.

4. INCORPORATING SUSTAINABILITY WHEN PROVIDING INVESTMENT ADVICE

Subject to the results of its impact assessment, Commission delegated acts (MiFID and IDD) on the suitability assessment	**(L2)**	Q2 2018
ESMA to include sustainability preferences as part of its guidelines on the suitability assessment	**(NL)**	Q4 2018

5. DEVELOPING SUSTAINABILITY BENCHMARKS		
Commission delegated acts on the transparency of the methodology of benchmarks and on the features of the benchmarks	**(L2)**	Q2 2018
Subject to the results of its impact assessment, an initiative creating a designated category of benchmarks comprising low-carbon issuers	**(L/NL)**	Q2 2018
Report of the Commission's technical expert group on the design and methodology of the low-carbon benchmark	**(NL)**	Q2 2019

6. BETTER INTEGRATING SUSTAINABILITY IN RATINGS AND RESEARCH		
Commission services report on progress made on the actions involving credit rating agencies	**(NL)**	Q3 2019
ESMA to assess current practices in the credit rating market; ESMA to include ESG information in its guidelines on disclosure for credit rating agencies	**(NL)**	Q2 2019
Study on sustainability ratings and research	**(NL)**	Q2 2019

7. CLARIFYING INSTITUTIONAL INVESTORS AND ASSET MANAGERS' DUTIES		
Subject to the results of its impact assessment, Commission legislative proposal to clarify institutional investors' and asset managers' duties on sustainability and to increase transparency of end-investors, including transparency on their strategy and climate-related exposures	**(L)**	Q2 2018

8. INCORPORATING SUSTAINABILITY IN PRUDENTIAL REQUIREMENTS

Work towards incorporating climate risks into institutions' risk management policies and on the potential calibration of banks' capital requirements in the Capital Requirement Regulation and Directive to take into account climate change-related risks while safeguarding financial stability and ensuring coherence with the EU taxonomy.	Issue under discussion in the on-going legislative procedure	2018-2019
The Commission will invite the European Insurance and Occupational Pensions Authority to assess the impact of prudential rules for insurance companies on sustainable investment	**(NL)**	Q3 2018

9. STRENGTHENING SUSTAINABILITY DISCLOSURE AND ACCOUNTING RULE-MAKING		
Publication of conclusions of the fitness check on public corporate reporting. This will inform any future legislative action by the Commission.	**(NL)**	Q2 2019
Revision of the guidelines on non-financial information as regards climate-related information.	**(NL)**	Q2 2019
Subject to the result of its impact assessment, proposal requiring asset managers and institutional investors to disclose how they consider sustainability factors in their investment decision making process (as part of the proposal foreseen under action 7).	**(L)**	Q2 2018
Establishing a European Corporate Reporting Lab as part of EFRAG	**(NL)**	Q3 2018
Commission to systematically request EFRAG to assess in its endorsement advice the potential impact of new or revised IFRS standards on sustainable investments	**(NL)**	Q1 2018
Commission request to EFRAG to explore sound alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments	**(NL)**	Q2 2018
Commission report on the impact of IFRS 9 on long-term investments	**(NL)**	Q4 2018

10. FOSTERING SUSTAINABLE CORPORATE GOVERNANCE AND ATTENUATING SHORT-TERMISM IN CAPITAL MARKETS

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Assessment of possible ways to promote corporate governance more conducive to sustainable finance	**(NL)**	Q2 2019
ESAs to collect evidence of undue short-term pressure from capital markets on corporations and consider further steps based on such evidence	**(NL)**	Q1 2019

Annex IV - Visualisation of the actions