Sustainable Finance disclosures

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

Taxonomy Regulation

Delegated regulation

Delegated Act on CC mitigation and adaptation criteria

- EU law

Complementary Delegated Act

- Adopted by EC, currently under scrutiny
- Nuclear and gas

Delegated Act on criteria for objectives 3-6

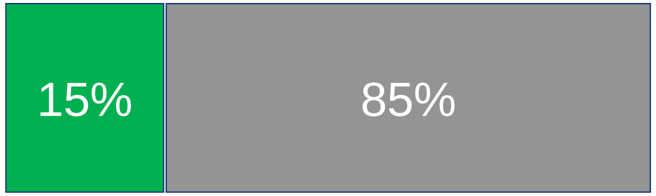
- EC adoption in 2022

Delegated Act on disclosure obligations (Art. 8)

- EU law, **larger** (NFRD/CSRD) financial and non-financial companies in scope
- 2022: disclosures on **CC** mitigation and adaptation (covering FY2021) – only eligibility reporting
- 2023: disclosures on **all objectives** (covering the FY2022)
- FAQs published, further guidance under consideration, review clause in 2024

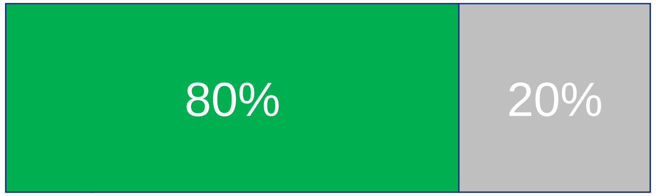
Use of the Taxonomy by companies – Turnover vs Capex

Company X



Turnover from taxonomy aligned activities

→ Gives a picture of how sustainable the company is at the moment



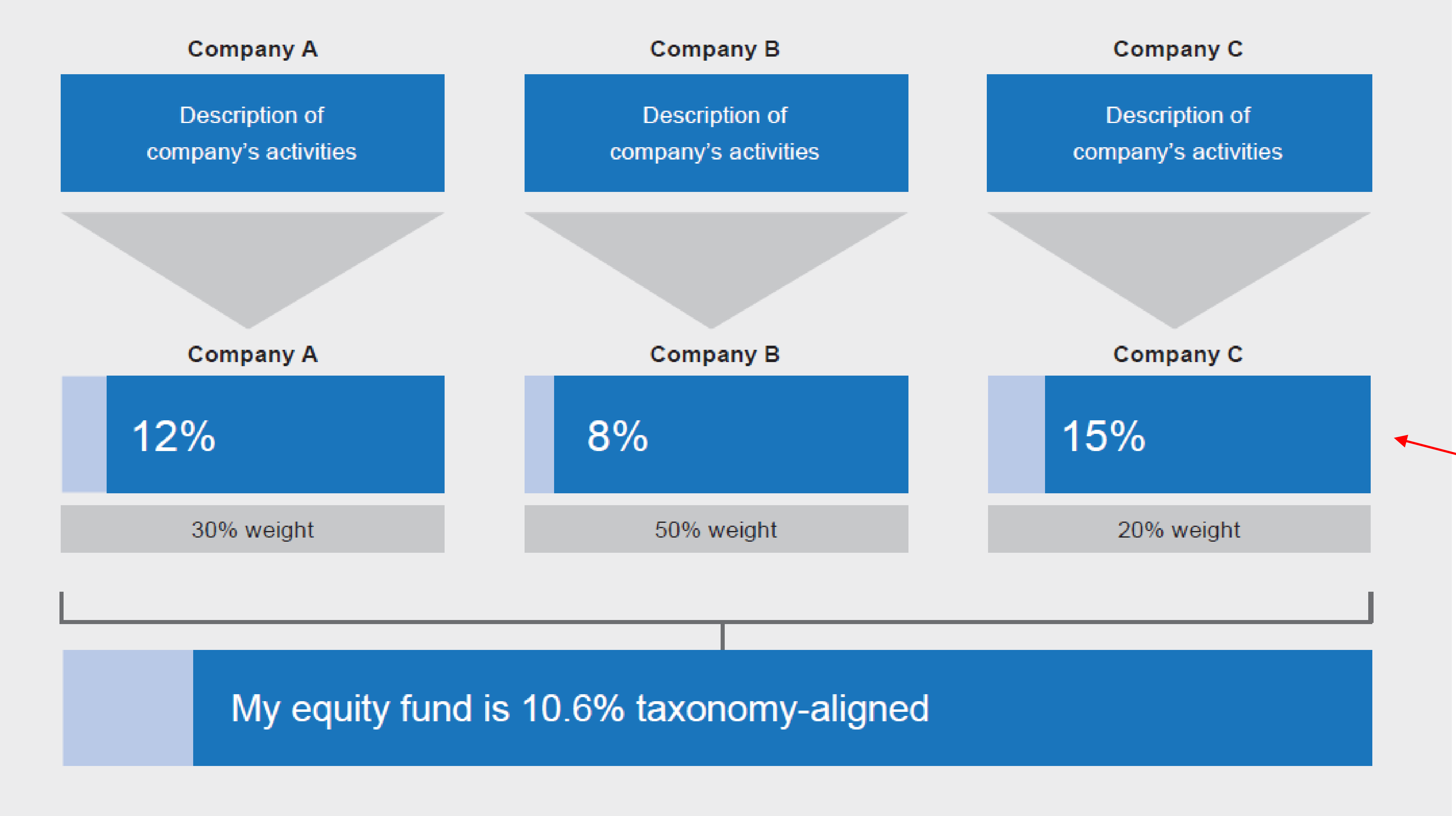
CAPEX related to taxonomy aligned activities

(and, if relevant, OPEX)

→ Indicates the "direction of travel"

Breakdown based on the objective, transitional and enabling activities

Asset managers' Green Investment Ratio (GIR)



Based on share of Taxonomy-aligned Turnover or CapEx

Banks' Green Asset Ratio (GAR)

- Proportion of the bank's assets invested in Taxonomy-aligned economic activities as a share of total assets (except sovereign exposures)
- **Breakdown** based on the objective, type of counterparty, transitional and enabling activities
- Exposures to **SMEs and non-EU** counterparties excluded from the numerator
- Inclusion of exposures to SMEs and non-EU in the GAR numerator will be considered by **2024** after impact assessment
- **Green bonds** included in the numerator (but not green loans to SMEs) based on their Taxonomy-alignment
- Financial institutions can disclose **voluntary KPIs** including (estimates of) exposures to sovereigns, SMEs, non-EU

Schedule of disclosures

Review 30 Dec 2024

	2022*	2023	2024	2025
Corporates (NFRD)				
Investment firms				
Asset managers			***	
Insurers	KPI Underwriting			
	KPI Assets		***	
Credit institutions	Main GAR			
	Additional KPIs**		***	

*Entry into force: 1 January 2022, reporting based on previous FY e.g. 2021 data for 2022 reporting
**Trading book and Fees and Commissions delayed to 2026
***Reporting for financial holdings may only account eligible data from previous FY, aligned in 2025

Taxonomy-eligible data
Taxonomy-aligned data
Mix according to holdings

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Sustainable Finance Disclosure Regulation

Obligations for financial market participants

Entity-level disclosures

- Level 1 applies as of March 2021
- SFDR RTSs adopted by EC in April 2022, currently under scrutiny, should apply as of 2023
- Principal adverse impacts 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

Sustainable Finance Disclosure Regulation

Obligations for financial market participants

Product-level disclosures as amended by Taxonomy Regulation

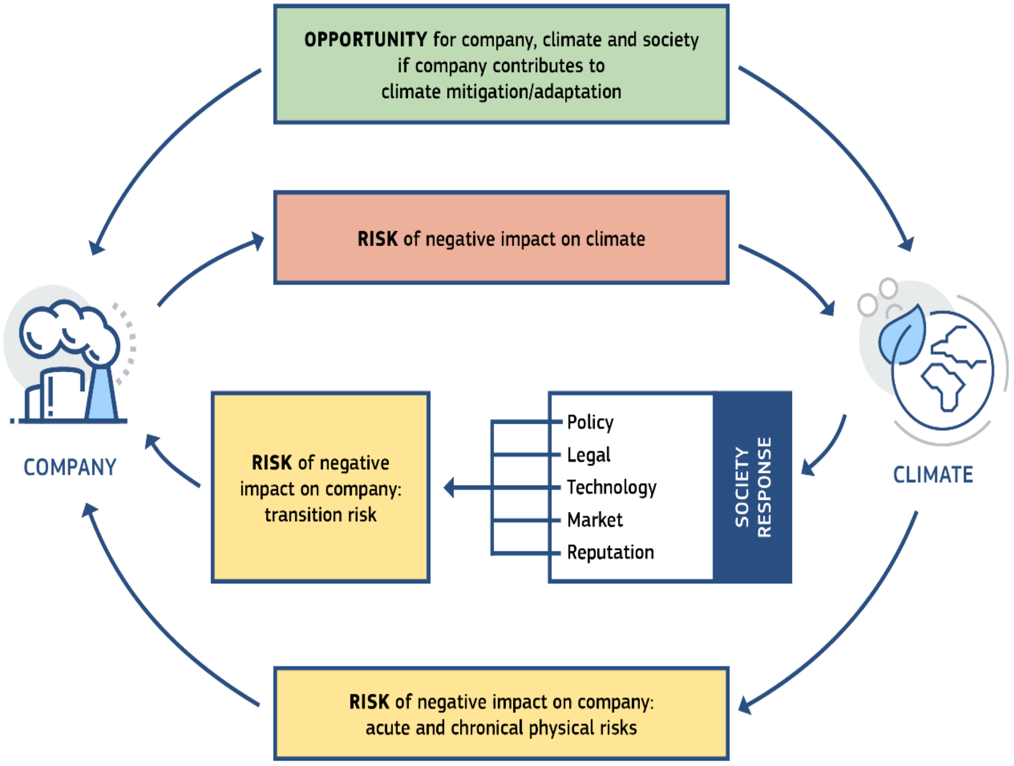
SFDR		Taxonomy	
Art. 9	Financial products that **contribute to an environmental objective**	Art. 5	Need to disclose: i) info on the environmental objective(s) ii) how and in what proportion the investments are Taxonomy-aligned activities
Art. 8	Financial products that **promote environmental characteristics**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

Corporate Sustainability Reporting Directive

Replaces Non-Financial Reporting Directive

- SCOPE
  - all large and all listed companies (incl. listed SME, but no micro-SME). Up from 11K to 49K firms.
- AUDITING
  - limited assurance, with an option to move towards reasonable assurance at a later stage
- STANDARDS
  - developed by the EFRAG. First set planned by Oct 2022, second set (incl. simplified standards for SMEs) by Oct. 2023, first company reports expected in 2024
  - machine-readable information

Double materiality perspective



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Capital Requirements Regulation
Investment Firms Regulation

- Pillar 3 disclosures under Art. 449a CRR2
- EBA published final draft ITS in Jan 2022
- Scope: large listed banks
- First disclosure in 2023 (with ref. 2022), on an annual basis during the first year and biannually thereinafter
- Qualitative disclosures on ESG risks, quantitative disclosures on climate change transition and physical risks
- KPIs on climate change mitigating measures, including turnover-**GAR** and **BTAR** (as of 2024), financed **GHG emissions**, distance to **Paris-aligned** scenario, and **energy efficiency** of RE portfolio

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Alessi and Battiston (JRC WP, 2021)

Previous version in Alessi, Battiston, Melo and Roncoroni (2019)

- First top-down approach to **estimate taxonomy-alignment of financial portfolios**
- Makes use of **standardized coefficients** (TACs) by NACE sector of the obligor/investee company
- Can be applied to **any portfolio**, incl. lending
- Can be used whenever more granular info is not available
- Available for CC mitigation
- Used by ESMA (Advice on Art. 8 TR), EBA (EU-wide pilot exercise on climate risk) and ESRB (Climate-related risk and financial stability)

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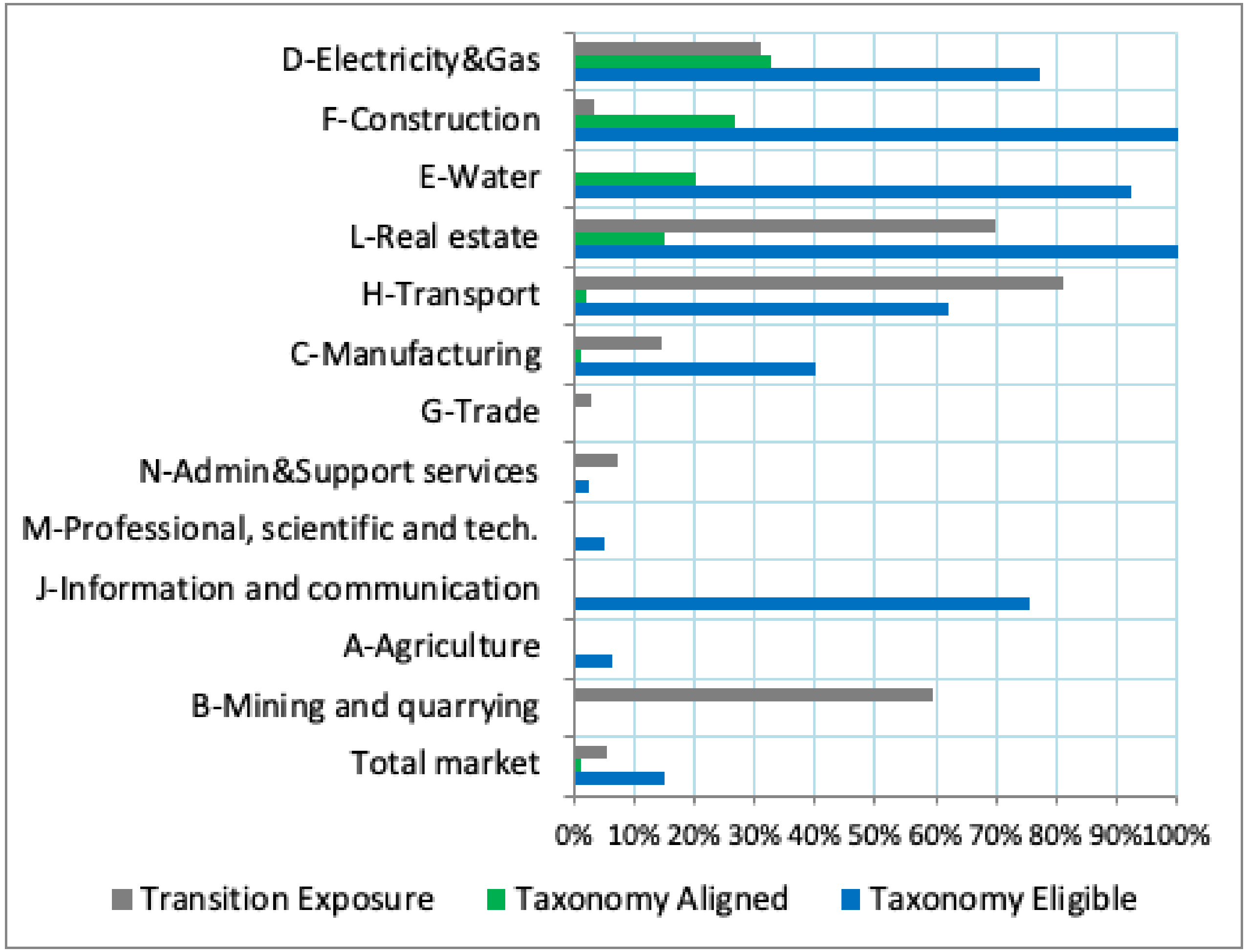
Taxonomy alignment (TA) and Transition risk exposure (TE) by economic activity



- Some sectors (e.g. D) have both high levels of TA and TE
- High level of TA is some sector (e.g. F and L) is driven by aspects of regulation (new constructions).
- High level of TE in transport is driven by current share of high-carbon activities
- High level of TE in B is driven by intrinsic share of high-carbon activities.

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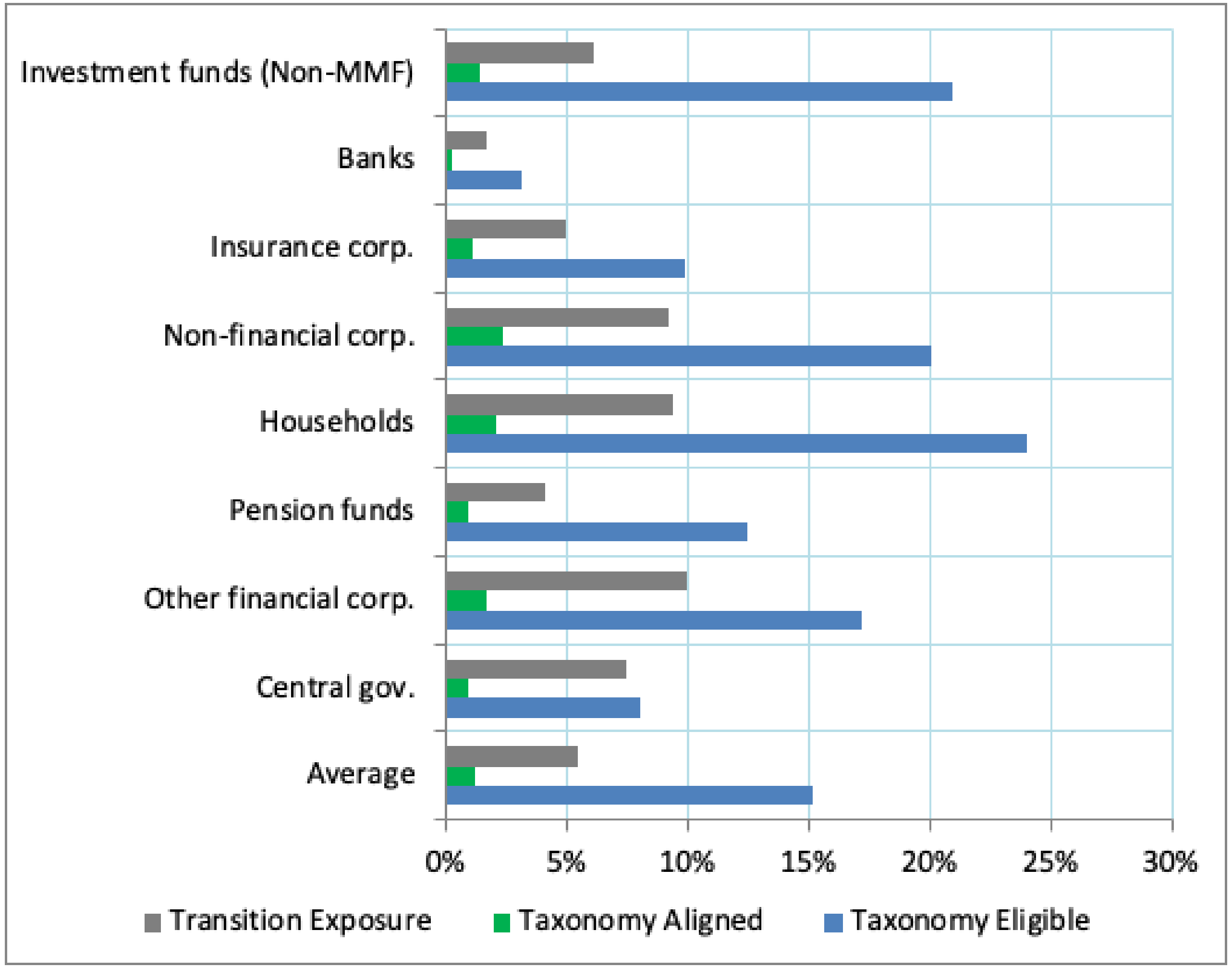
Taxonomy alignment (TA) and Transition risk exposure (TE) by holder type



- Sorted by total holdings in equity and bonds of ESA2010 institutional sectors.
- Holders with large shares of bonds issued by financial institutions inherit low levels of TA and TE
- High level of TA/TE are may depend on exposure to specific NACE sectors
- Transition risk reaches 2-dgt in several equity portfolios

For all holders

- Eligibility >> Alignment
- Transition risk > Alignment

Thank you