



EU Sustainable Finance Action Plan – Introduction

Guidance Document

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Sustainalytics, a Morningstar Company, is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 16 offices globally, Sustainalytics has more than 650 staff members, including more than 200 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.

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Background

The European Commission estimates that an additional €175 to 290 billion per year in investments in Europe’s energy system and infrastructure are needed to achieve its climate goals. Private sector finance flows must be directed towards low emissions investments and to this end the European Commission published its *Action Plan: Financing Sustainable Growth* (‘Action Plan’) in March 2018. It describes the EU’s strategy for sustainable finance and is part of the implementation plan of Article 2(1)(c) of the Paris Agreement and the UN 2030 Agenda for Sustainable Development.

The Action Plan builds on the recommendations of the High-Level Expert Group on sustainable finance’s report from January 2018. It aims to:

1. reorient capital flows towards sustainable investments in order to achieve sustainable and inclusive growth;
2. manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and
3. foster transparency and long-termism in financial and economic activity.

Ten actions have been identified that are needed to achieve these goals:

Goals	Action
Goal 1: Reorienting capital flows towards a more sustainable economy	1. Establishing an EU classification system for sustainable activities
	2. Creating standards and labels for green financial products
	3. Fostering investment in sustainable projects
	4. Incorporating sustainability when providing financial advice
	5. Developing sustainability benchmarks
Goal 2: Mainstreaming sustainability risk management	6. Better integrating sustainability in ratings and market research
	7. Clarifying institutional investors’ and asset managers’ duties.
	8. Incorporating sustainability in prudential requirements.
Goal 3: Fostering transparency and long-termism	9. Strengthening sustainability disclosure and accounting rule-making.
	10. Fostering sustainable corporate governance and attenuating short-termism in capital markets.

At the heart of the plan is the EU Taxonomy (Action 1) – a classification framework designed to determine whether an economic activity is environmentally sustainable. It is a legislative proposal that also forms the foundation of other EU objectives such as eco fund labels, green bond standards (Action 2) and possible changes to central bank policies. The two other legislative proposals under the Action Plan are on low carbon benchmarks (Action 5) and disclosure requirements (Actions 4 and 7).

Status of Political Process and Legislation

The status of the political process and implementation is different for each of the actions as well as for the three legislative proposals. We discuss each of these in a separate guidance document. We provide a timeline with the most relevant dates in the below appendix.

Purpose and Content of the Guidance Pack

Sustainalytics is closely following the developments surrounding the Action Plan to provide our clients with solutions that can help them comply with the different requirements.

We have developed guidance documents on the three legislative proposals that are most relevant to investors (collectively referred to as 'EU requirements'). Each guidance document provides an explanation of the objective and structure of the requirements under the legislation. It also provides guidance on how Sustainalytics' research products can help investors meet those requirements.

We currently have the following documents available:

- **EU Taxonomy Guidance Document:** on the EU Taxonomy (Action 1).
- **EU Benchmarks Guidance Document:** on EU Climate Benchmarks and on Benchmarks' ESG disclosure requirements (Action 5).
- **EU Investors' Disclosure Regulation Guidance Document:** on clarifying institutional investors' and asset managers' duties (Action 7).

In this document

In the appendixes further down in this document you will find a *timeline* with important dates relevant to the Action Plan, as well as an *overview table* that helps to understand how action items are interlinked, what (existing) regulation is relevant, and timelines per item.

Sustainalytics solutions

Morningstar and Sustainalytics are committed to rolling out a suite of ESG research and data solutions ahead of regulatory deadlines to help our clients meet the diverse requirements underpinning the EU Sustainable Finance Action Plan.

Given the most urgent deadline to meet was for the EU Benchmark Regulation, Sustainalytics launched an **EU Benchmarks Mapping Service in April 2020**. This service aligns our ESG research and data to the benchmark requirements. Our Mapping Service helps index providers and benchmark administrators to meet mandatory benchmark ESG reporting and disclosure obligations and to screen companies on their eligibility for EU Climate Benchmarks. We intend to provide an updated Benchmarks Mapping Service in the latter half of 2020.

For the EU Taxonomy, we are launching in September 2020 an **EU Taxonomy solution** that leverages our existing ESG research and data. We will offer an enhanced solution in Q3 2021, which adds economic activity-based involvement

research for Taxonomy activities, and we will make enhancements to our solution before the requirement takes effect in January 2022.

On the **Sustainable Finance Disclosure Regulation**, we have provided a response to the consultation, which included a reference to our position on the Principle Adverse Impact Indicators. In addition, we have a high-level mapping available and will publish a detailed mapping of our Sustainalytics data fields to the Adverse Impact indicators in Q4 2020. We aim to provide data feeds with relevant ESG data in 2021. Since most consultation responses have taken issue with the number and scope of the PAIs and are requesting for there to be far less, this informs our position to wait until the final delegated regulations are published/decided before expanding our research.

Questions?

For questions please reach out to your client advisor or contact us at contact@sustainalytics.com.

References

Commission Action Plan on financing sustainable growth:

https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

Appendix II: Overview table of action items covered in the Guidance Pack

Action item		Relevant regulation	Related action items	Timelines
1	Establishing an EU classification system for sustainable activities (Taxonomy)	Taxonomy regulation	#2: Green Bonds Standard, Ecolabel #4: Financial advice #5: Climate Benchmarks #7: Disclosure requirements	<ul style="list-style-type: none"> Final TEG report published Mar 2020 Regulation published mid-2020 (expected) Delegated acts (climate change mitigation and adaptation): Dec 2020 – into effect Dec 2021 Delegated acts (remainder): Dec 2021 – into effect Dec 2022
2	Creating standards and labels for green financial products	Green Bonds Standards Ecolabel	#1: Taxonomy	<ul style="list-style-type: none"> GBS: published in March 2020. Decision on regulation pending Ecolabel: available expected Q1-2 2021
4	Incorporating sustainability when providing financial advice	MiFID II, UCITS, AIFMD, IDD	# 7: disclosure requirements	<ul style="list-style-type: none"> Details expected Mar/Apr 2020. Effective 12months after approved details Draft MiFID amendments available
5	Developing sustainability benchmarks	Benchmarks regulation	#1: Taxonomy #7: Disclosure requirements	<ul style="list-style-type: none"> Amendment to existing regulation published Dec 2019; comes into effect on 30 Apr 2020. Delegated acts published July 2020. Enforcement expected Q4 2020.
7	Clarifying institutional investors' and asset managers' duties.	Sustainability-related disclosures regulation, MiFID II, UCITS, IDD, Solvency II, AIFMD, IORP	#4: Financial advice	<ul style="list-style-type: none"> Regulation published Dec 2019. Consultation by ESAs closed 1 Sep 2020. Application dates vary per article between Mar/Jun /Dec 2021 and Jan/Jun 2022 Disclosure entity-level Principle Adverse Impact indicators latest June 2022, over 2021 reference period.