



Sustainable Finance & Sustainability Lexicon

SUSTAINABLE FINANCE ACTION PLAN

Originally published in March 2018, the action plan set out a comprehensive strategy to further connect finance with sustainability. SFDR (see below) and the EU Taxonomy are amongst the most prominent actions of the plan. The initial plan was further expanded in summer 2021 with the publication of the “Strategy for Financing the Transition to a Sustainable Economy.”

SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

The disclosure regulation lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors. It applies from 10 March 2021. In relation to the integration of sustainability risks by financial market participants (i.e. asset managers, institutional investors, insurance companies, pension funds, etc.), and financial advisers in all investment processes and for financial products that pursue the objective of sustainable investment. It also requires disclosure obligations as regards principal adverse impacts on sustainability matters (“PAI”) at entity and financial products levels. The regulation lays down specific disclosure requirements, in prospectuses and annual reports, for products promoting environmental or social characteristics (so called “article 8” products) or products pursuing sustainability as main objective (so called “article 9” products). SFDR reporting templates, as defined in SFDR RTS, will apply from 1 January 2023.

EU TAXONOMY REGULATION (TR)

This regulation establishes a framework to determine whether an economic activity qualifies as environmentally sustainable. These technical screening criteria (“TSC”), determined per activity, are detailed in the Taxonomy delegated acts. The Technical Screening Criteria in relation with Climate Change objectives apply from 1 January 2022, whereas the criteria in relation with Water, Waste, Biodiversity and pollution prevention, currently under development, will apply from 1 January 2023. Financial products with sustainability objectives shall disclose the level of alignment of their portfolio with the Taxonomy framework.

MIFID2 SUSTAINABILITY PREFERENCES DELEGATED ACT

This delegated act integrates client’s preferences in term of sustainability as a top up to the suitability assessment performed by financial advisers and intermediaries.

IDD SUSTAINABILITY PREFERENCES DELEGATED ACT

This delegated act integrates client’s preferences in term of sustainability as a top up to the suitability assessment performed by insurance intermediaries and insurance undertakings distributing insurance-based investment products.

EUROPEAN ESG TEMPLATE (EET)

It is a standardised template that will facilitate the exchange of ESG data between market participants as required in order to comply with European financial market legislation such as MiFID2, IDD or SFDR. This initiative is led by FinDatEx, a joint structure established by representatives of the European Financial services sector industry.



EUROPEAN GREEN BOND STANDARD (EUGBS)

The European green bond standard (EUGBS) is a proposal from the European Commission to create, for the first time, a voluntary standard established under regulation to help scale up and raise the environmental ambitions of the green bond market. Establishing this standard was an action in the Commission's 2018 action plan on financing sustainable growth and is part of the European green deal.

The Regulation will, if it is adopted by the Council of Ministers and the European Parliament, set a new standard for how companies and public authorities can use green bonds to raise funds on capital markets to finance such ambitious large-scale investments, while meeting tough sustainability requirements and protecting investors.

This will give issuers a robust tool to demonstrate that they are funding legitimate green projects aligned with the EU taxonomy. And investors buying the bonds will be able to more easily assess, compare and trust that their investments are sustainable, thereby reducing the risks posed by greenwashing. The new EUGBS will be open to any issuer of green bonds, including companies, public authorities, and also issuers located outside of the EU.

There are four key requirements under the proposed framework:

- 1. Taxonomy-alignment:**
The funds raised by the bond should be allocated fully to projects that are aligned with the EU taxonomy
- 2. Transparency:**
Full transparency on how the bond proceeds are allocated through detailed reporting requirements
- 3. External review:**
All European green bonds must be checked by an external reviewer to ensure compliance with the Regulation and taxonomy alignment of the funded projects
- 4. Supervision by the European Securities Markets Authority (ESMA) of reviewers:**
External reviewers providing services to issuers of European green bonds must be registered with and supervised by the ESMA. This will ensure the quality of their services and the reliability of their reviews to protect investors and ensure market integrity

NON-FINANCIAL REPORTING DIRECTIVE (NFRD)

NFRD lays down the rules on disclosure of non-financial and diversity information by very large listed companies.

CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

This proposal amends NFRD and:

- extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises)
- requires the audit (assurance) of reported information
- introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards
- requires companies to digitally 'tag' the reported information, so it is machine readable and feeds into the European single access point envisaged ("ESAP").



LEVEL 2, DELEGATED ACTS AND RTS

Many level 1 regulations and directives in the area of financial services (so called 'basic acts') contain empowerments for level 2 measures to be adopted by the Commission by means of delegated acts, implementing acts, or measures under the former comitology 'regulatory procedure with scrutiny'.

Delegated acts are acts supplementing or amending certain non-essential elements of a basic act. Implementing acts are to be used where uniform conditions for implementing basic acts are required.

Where the level 2 measures require the expertise of supervisory experts, it can be determined in the basic act that these measures are technical standards based on drafts developed by the European supervisory authorities. There are two types of standards:

- the regulatory technical standards ("RTS"), which are adopted by the Commission by means of a delegated act
- the implementing technical standards ("ITS"), which are adopted by means of an implementing act.

Frédéric Vonner

Sustainable Finance & Sustainability Leader,
Partner, PwC Luxembourg
+352 49 48 48 4173
frederic.vonner@pwc.com

Olivier Carré

Financial Services Market Leader & Sustainability
Sponsor, Partner, PwC Luxembourg
+352 49 48 48 4174
olivier.carre@pwc.com

Nathalie Dogniez

EMEA AWM ESG Leader,
Partner, PwC Luxembourg
+352 49 48 48 2040
nathalie.dogniez@pwc.com

Andrew McDowell

Partner, Strategy&, PwC Luxembourg
+352 49 48 48 2034
andrew.mcdowell@pwc.com



2022, the year of ESG acceleration
- Watch our PwC Sustainability
Program for 2022!

