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COVER NOTE

From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of
the European Union

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Subject: COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY
OF THE IMPACT ASSESSMENT Accompanying the document Proposal
for a Regulation of the European Parliament and of the Council on the
establishment of a framework to facilitate sustainable investment Proposal
for a Regulation of the European Parliament and of the Council on
disclosures relating to sustainable investments and sustainability risks and
amending Directive (EU) 2016/2341 Proposal for a Regulation of the
European Parliament and of the Council amending Regulation (EU)
2016/1011 on low carbon benchmarks and positive carbon impact
benchmarks

Delegations will find attached document SWD(2018) 265 final.

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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment

Proposal for a Regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks

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Executive Summary Sheet
Impact assessment on Sustainable Finance
A. Need for action
Why? What is the problem being addressed?
<p>Governments from around the world chose a more sustainable path for our planet and our economy by adopting the Paris agreement on climate change and the UN 2030 Agenda for Sustainable Development. The European Union is leading on this front, and thus adopted in March 2018 an Action Plan on Sustainable Growth, with the objectives of (i) reorienting capital flows towards sustainable investments, (ii) managing financial risks stemming from environmental challenges, and (iii) fostering transparency and long-termism in financial and economic activity. The actions assessed in this impact assessment and which were announced in this Action Plan are parts of a broader and further-reaching strategy to make the European economy truly sustainable. They will contribute to the Action Plan's objectives by addressing the following problems:</p> <ol style="list-style-type: none"> 1. institutional investors, asset managers, investment advisors and insurance distributors ("the relevant entities") lack incentives to consider Environmental, Social and Governance (ESG) factors in their investment and advisory process, notably as a result of the lack of clarity and coherence of EU legislation in that regard; 2. end-investors face high search costs a) to identify what constitute sustainable investments and b) to assess the extent to which ESG factors are integrated in the financial products available on the market.
What is this initiative expected to achieve?
<p>The specific objectives of this initiative are:</p> <ol style="list-style-type: none"> 1. to ensure clarity and a coherent approach across sectors and Member States as regards the integration of ESG factors by the relevant entities in their investment/advisory process; 2. to increase transparency towards end-investors by improving ESG-related disclosure requirements; 3. to provide clarity on what sustainable investments are and , by a) creating a EU framework setting out conditions for determining the environmental sustainability of investments - this classification system to be created at the EU level (also called taxonomy) will establish market clarity on which activities are 'green' or 'sustainable', and b) creating a new category of low-carbon and positive carbon impact benchmarks, based on a sound methodology, which will help investors compare the carbon footprint of their investments.
What is the value added of action at the EU level?
<p>The financial entities that will be impacted by this initiative are mostly working across borders in the EU. That is the reason why legislation applying to those market players is largely harmonised at EU level. Action at EU level to integrate ESG factors in their investment decision/advisory process, increase the transparency towards end-investors and provide clarity on what environmentally sustainable investments are will thus ensure coherence, reduce fragmentation, and further improve the functioning of the single market. EU level action is needed to deliver on the common EU sustainable development objectives and the sustainability targets set at global level.</p>

B. Solutions
What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?
<p>Four actions are assessed by this impact assessment. After considering, for each of them, both legislative and non-legislative options, the following preferred options were identified:</p> <p>1. Investors duties</p> <p>Asset managers, insurance undertakings, insurance distributors, occupational pension funds, investment advisors and individual portfolio managers would be required to integrate ESG factors in the investment decision and advisory process of as part of their investors' duties. This would provide clarity and consistency across the market, and mainstream sustainability in the investment decision making and advisory processes of these financial institutions, in particular in their risk management.</p> <p>2. Disclosures</p> <p>The relevant entities would also have to disclose how they comply with these duties. In addition, those asset managers and institutional investors who claim to pursue sustainability objectives would have to demonstrate</p>

alignment of their investments with those objectives. This would increase transparency towards end-investors, ensure comparability between products, and discourage green-washing.

3. A unified EU classification system ('taxonomy'):

The preferred option would set uniform criteria at EU level for determining whether an economic activity is environmentally sustainable. It is being proposed that the Commission will afterwards identify the activities which will qualify as sustainable while drawing on the advice of a technical expert group on sustainable finance being set up. This should provide economic actors and investors with clarity on which activities are considered green/sustainable in order to inform their investment decisions. This is a first and essential step in the efforts to channel investments into sustainable activities.

4. Benchmarks

The preferred option would introduce two new categories of low-carbon and positive carbon impact benchmarks. Harmonised minimum standards for the methodology used to develop these benchmarks would be defined. This will foster a market standard reflecting companies' carbon footprint. Doing so, it will provide investors who want to invest in low carbon strategies with a reliable tool.

Who supports which option?

Answers to the public consultation on **investors' duties** largely support an intervention at EU level as this would provide consistency and clarity to financial entities as to what is required. On **disclosures**, the majority of market participants confirmed that they should disclose how they consider sustainability factors within their investment decision-making process. The majority of the stakeholders which shared their views with the Commission agreed that a **taxonomy** at EU level would be helpful to fulfil their investor duties and take into account ESG factors in their investment decision processes.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

By **increasing the overall transparency**, the different actions will **reduce the asymmetry of information** between end-investors, financial intermediaries and index providers. The initiative would **reduce the current fragmentation of the market**, notably in terms of methodologies for identifying environmentally sustainable activities/investments. This enhanced transparency and harmonisation will **increase the reliability and attractiveness of and confidence in ESG financial products** and foster innovation in investment strategies and the design of these financial products. The actions will also help mainstreaming sustainability into risk management and, combined with the other measures of the Action Plan, result in the **growth of the European sustainable finance market**. Overall, the actions will contribute to the reorientation of capital flows towards sustainable investments and hence to the objective of **fostering a sustainable economy**. This would support the far-reaching sustainable transformation envisaged by the environmental policies already in place at EU and Member State levels.

What are the costs of the preferred option (if any, otherwise main ones)?

The costs for the relevant entities of integrating ESG factors in the investment decision and advisory process and improving ESG-related disclosures are expected to remain relatively limited, if done in a standardised way. For those financial institutions which already have developed a taxonomy, the use of the EU taxonomy might entail costs - although these are likely to be lower than the savings derived from maintaining an own taxonomy or using various different taxonomies, and in any case lower than the benefits expected from using this taxonomy. For index providers, creating new categories of low-carbon and positive carbon impact benchmarks will generate limited costs as it provide minimum standards for the methodologies to develop these benchmarks.

How will businesses, SMEs and micro-enterprises be affected?

The preferred options will indirectly impact businesses as issuers of securities by incentivizing them to disclose the additional ESG information necessary for financial intermediaries and investors. Starting 2018, the Directive on disclosure of non-financial information already requires large listed companies as well as non-listed banks and insurance companies to disclose material sustainability information. For issuers not in the scope of this Directive (including SMEs), this incentive to disclose additional information will come with a cost. Nevertheless, this disclosure should also enable those issuers to access additional investors and potentially reduce the cost of capital.

Will there be significant impacts on national budgets and administrations?

Significant impacts on national budgets and administrations are not expected, because: (i) to a very large extent, the legislative requirements will have to be implemented by market participants, and (ii) monitoring requirements will be limited.

Will there be other significant impacts?

Major impacts already described in the benefits section.

D. Follow up

When will the policy be reviewed?

Ex-post evaluation is envisaged five years after the implementation of the measures, to assess, among other things, how effective and efficient the measures have been in terms of achieving the objectives presented in this impact assessment and to decide whether new measures or amendments are needed. The Commission will measure progress through general key performance indicators for every action covered by this initiative.