

MONITORING ESG

Taxonomy - Green Finance -
Sustainable Business

2021/01



Sustainable Finance Strategy is key to generate private finance to reach our climate targets and tackle other environmental challenges. We also want to create sustainable funding opportunities for small and medium-sized companies. «

Valdis Dombrovskis

Executive Vice President of the European
Commission for an Economy that Works for People

ESG AND THE ROLE OF TEG

What is ESG?



ESG means using Environmental, Social and Governance factors to evaluate companies and countries on how far advanced they are with sustainability. Once enough data has been acquired on these three metrics, they can be integrated into the investment process when deciding what equities or bonds to buy.

ROBECO
Executive Vice President of the European Commission for an Economy that Works for People

What is EU Taxonomy?

The EU Taxonomy is a strategy to create a harmonized understanding of what actually constitutes sustainable activities across the European Union. It attempts to define 'green activities' for the first time, using minimum criteria that economic activities should comply with in order to be considered.

ROBECO
<https://www.robeco.com/en/key-strengths/sustainable-investing/glossary/eu-taxonomy.html>

What is Fit for 55?

Fit for 55 aims to put the bloc on course to meet its ambitious target of a 55% reduction in greenhouse gas emissions by 2030, relative to 1990 levels, aligning EU policy with the ambitious political mandates of the Green Deal and EU Climate Law. This series of 13 cross-cutting legislative proposals include 8 revisions of existing legislation and 5 brand new proposals.

EUI Florence School of Regulation
<https://fsr.eui.eu/fit-for-55-eu-rolls-out-largest-ever-legislative-package-in-pursuit-of-climate-goals/>

What is TEG and why is it so important?

The European Commission set up a Technical expert group on sustainable finance (TEG) to assist it in developing, in line with the Commission's legislative proposals of May 2018 an EU classification system – the so-called EU taxonomy.

https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en

The TEG has been working on the definition of minimum standards for the methodology of the 'EU Climate Transition' and 'EU Paris-aligned' benchmarks, that are aligned with the objectives of the Paris Agreement and addressing the risk of greenwashing. It has also worked on disclosure requirements in relation to Environmental, Social and Governance (ESG) factors in the benchmark statement and the benchmark methodology for all types of benchmarks (except interest rate and foreign exchange benchmarks) including the standard format to be used to report such elements to determine whether an economic activity is environmentally sustainable; the EU Green Bond Standard; methodologies for EU climate benchmarks and disclosures for benchmarks; and guidance to improve corporate disclosure of climate-related information.

15 July 2021 – EU TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE
https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200715-sustainable-finance-teg-statement-resilience-recovery_en.pdf

TAXONOMY AND REGULATORY

Draft report by the Platform on Sustainable Finance on preliminary recommendations for technical screening criteria for the EU taxonomy

The Platform on Sustainable Finance describes the EU taxonomy approach, the activities considered, and the methodological framework followed. Furthermore, it includes the feedback materials, consisting of the questions on which the platform invite stakeholders to provide feedback.

03 July 2021 - The Platform on Sustainable Finance
https://ec.europa.eu/info/publications/210803-sustainable-finance-platform-technical-screening-criteria-taxonomy-report_de

Annex to the draft report by the Platform on Sustainable Finance on preliminary recommendations for technical screening criteria for the EU taxonomy

Full list of Technical Screening Criteria for the sectors of agriculture, manufacturing, energy, civil engineering, building, transport, waste management and services.

03 August 2021 – The Platform on Sustainable Finance
https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/210803-sustainable-finance-platform-report-technical-screening-criteria-taxonomy-annex_en.pdf

Proposal for REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on European Green Bonds

This proposal is part of the broader European Commission agenda on sustainable finance. It lays the foundation for a common framework of rules regarding the use of the designation 'European green bond' or 'EuGB' for bonds that pursue environmentally sustainable objectives within the meaning of Regulation (EU) 2020/8521 (Taxonomy Regulation)).

It also sets up a system for registering and supervising companies that act as external reviewers for green bonds aligned with this framework.

06 July 2021 – European Commission
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=cellar:b78198cf-df30-11eb-895a-01aa75ed71a1#search=TEG>



KNOWLEDGE NUGGET What is ETS?

The Emissions Trading System (ETS) sets a cap on overall emissions for certain sectors and then allocates credits totalling this amount, the credits can then be traded within the industry to reward low-emitters and increase costs for polluters. Over time the total emissions budget reduces incrementally, driving down overall emissions. The ETS previously covered roughly 40% of total emissions in the EU, the revised version increased this share with the inclusion of additional sectors such as maritime, as well as a new ETS for transport and buildings from 2026.

EUI Florence School of Regulation
<https://fsr.eui.eu/fit-for-55-eu-rolls-out-largest-ever-legislative-package-in-pursuit-of-climate-goals/>

TOP-STAKEHOLDER ASSOCIATION

„Fit for 55“



TOP-STAKEHOLDER

Green Deal



SUSTAINABLE FINANCE



KNOWLEDGE NUGGET What are Green Bonds?

Green Bonds are typically issued by financial institutions. There is no international legal framework for green bonds, but market standards have emerged in the meantime, the so-called Green Bond Principles. These include that the funds may only be used to finance sustainable activities. A bank could for example issue a Green Bond in order to refinance a portfolio of solar park loans. Interest and redemption of the bond are paid by the bank (issuer), not by the revenues of the loan portfolio. Issuers have to regularly inform their investors accordingly about the use of funds. Green Bonds offer a funding benefit and have become popular: while the issuance volume in 2013 was just 13 billion US dollars, in 2019 it was almost 250 billion dollars.

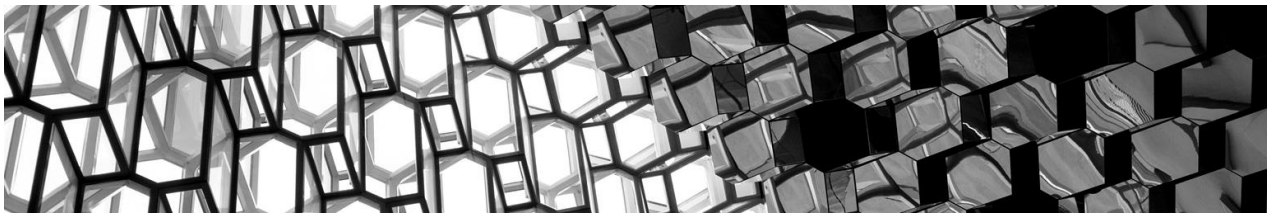
What are Climate funds?

Climate funds are investment portfolios that seek to buy the equities or bonds of companies that are aligned with the goals of the Paris Agreement. They can also target the sovereign bonds of governments that are cutting greenhouse gas emissions, thereby reducing their contribution to global warming.

ROBECO
<https://www.robeco.com/en/key-strengths/sustainable-investing/glossary/esg-definition.html>

What are ESG-linked loans?

This type of loan is also known as a positive incentive loan or sustainability-linked loan. The conditions are linked to the achievement of very specific sustainability targets. ESG-linked loans can be attractive for every company that plans to improve its overall ESG performance during the loan term.



Distressed Credit And The ESG Opportunity

Recent studies demonstrate that companies that outperform on ESG issues tend to outperform as credit investments and that positive ESG momentum generates a valuation premium. Mirchandani explains reasons why restructuring can catalyze sustainability and inclusion.

05 August 2021 – Forbes.com – Bhakti Mirchandani
<https://www.forbes.com/sites/bhaktimirchandani/2021/08/05/distressed-credit-and-the-esg-opportunity/?sh=69589b7228bc>

China ESG Funds Sidestep Stock Market Sell-Off on Fresh Inflows

According to Scanlan ESG funds in China are outperforming the broader market amid an equity rout, as fresh inflows into sustainable assets across Asia boost returns.

28 July 2021 – Bloomberg.com – David Scanlan
<https://www.bloomberg.com/news/articles/2021-07-28/china-esg-funds-sidestep-stock-market-sell-off-on-fresh-inflows>

Public Power Corp raises €500 million from sustainability-linked bond

Public Power Corp. (PPC), Greece's biggest power utility, has raised €500 million from a 7-year sustainability-linked bond.

14 July 2021 – Reuters.com
<https://www.reuters.com/business/sustainable-business/public-power-corp-raises-500-mln-euros-sustainability-linked-bond-2021-07-14/>

EBA REPORT ON MANAGEMENT AND SUPERVISION OF ESG RISKS FOR CREDIT INSTITUTIONS AND INVESTMENT FIRMS

The Report, which is a key component of the EBA's broader ESG work, provides a comprehensive proposal on how ESG factors and ESG risks should be included in the regulatory and supervisory framework for credit institutions and investment firms.

23 June 2021 – European Banking Authority
https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

Explanation: The Sustainability-Linked Bond Principles

The Sustainability-Linked Bond Principles provide guidelines that recommend structuring features, disclosure and reporting. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such financial products. The SLBP are applicable to all types of issuers and any type of financial capital market instruments.

June 2020 – Voluntary Process Guidelines
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>

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