

BANKING PROGRESS - BRUSSELS UNVEILS STRATEGY FOR FINANCING MOVE TO SUSTAINABLE ECONOMIES

19 July 2021 | EU
Legal Briefings

We assess EC moves to channel finance to low-carbon activity. Includes sustainable finance strategy and the much-vaunted Taxonomy Regulation

WHAT IS THE KEY ISSUE?

On 6 July 2021, the European Commission (the "**EU Commission**") adopted a package of measures aimed at improving the flow of capital towards financing the transition to a sustainable economy. These measures include the following:

1. A proposal for a new sustainable finance strategy.
2. The delegated act supplementing Article 8 of the EU Taxonomy Regulation.
3. Proposal for a Regulation on a voluntary European Green Bond Standard ("**EU GBS**").

WHAT DO WE KNOW?

The new sustainable finance strategy aims to support the European Green Deal targets, as well as catering for an inclusive and sustainable recovery from the Covid-19 pandemic. It provides the tools and policies to allow economic actors to finance their transition to a sustainable economy, it helps and provides opportunities to individuals and small and medium-sized enterprises ("**SMEs**") to have greater access to sustainable finance, it sets out ways the financial sector can contribute to meeting the Green Deal targets and it promotes international cooperation to work towards the global sustainable finance agenda.

The delegated act supplementing Article 8 of the EU Taxonomy Regulation aims to help companies to translate the technical screening criteria for the six environmental objectives into quantitative Key Performance Indicators ("**KPIs**") which will need to be disclosed to the public under the Taxonomy Regulation. The final delegated act has incorporated a number of changes following feedback collected during the consultation period which ended in May 2021. Most notably, the application of the Disclosure Delegated Act to financial undertakings has been delayed to 1 January 2024.

The EU GBS proposal aims to create to create a common framework for the rules relating to the use of the "European green bond" or "EUGB" designation in accordance with the Taxonomy Regulation.

WHAT WILL BE THE IMPACT?

The new sustainable finance strategy provides a revised roadmap towards a sustainable economy, setting out several initiatives to tackle environmental challenges. The Disclosure Delegated Act provides a tool for large public interest companies to interpret the content, methodology and presentation of the additional disclosure obligations imposed by the EU taxonomy regulation. The EU GBS aids issuers wishing to issue a green bond and investors wishing to invest in a green bond by providing a clear set of requirements with which such green bonds should comply.

1. A PROPOSAL FOR A NEW SUSTAINABLE FINANCE STRATEGY

Further to a consultation held from 8 April to 15 July 2020, the new strategy provides a roadmap towards a sustainable economy, building on the 2018 action plan on financing sustainable growth and the transition finance report by the Platform on Sustainable Finance.

The strategy aims to support the European Green Deal targets, as well as catering for an inclusive and sustainable recovery from the COVID-19 pandemic. In particular:

- it provides the tools and policies to allow economic actors to finance their transition plans and to reach climate and environmental goals;
- it helps and provides opportunities to individuals and SMEs to have greater access to sustainable finance;

- it sets out ways the financial sector can contribute to meeting the Green Deal targets, while addressing greenwashing and becoming more resilient; and
- it lays out different ways to promote international cooperation to work towards the ambitious global sustainable finance agenda.¹

The strategy includes the following six set of actions:

1. extend the existing sustainable finance framework to facilitate access to transition finance;
2. work towards a more inclusive framework, giving SMEs and consumers the right tools and incentives to access sustainable finance;
3. enhance the resilience of the economic and financial system to sustainability risks, through financial reporting standards that adequately reflect sustainability;
4. increase the contribution of the financial sector to sustainability;
5. ensure the integrity of the EU financial system e.g. through a robust monitoring framework to measure progress made on the transition to sustainability; and
6. develop international sustainable finance initiatives and standards, promote ambitious cooperation in international forums, and support EU member states in their transition efforts.²

The Commission will report on the implementation of the new sustainable finance strategy by the end of 2023.

2. THE DELEGATED ACT SUPPLEMENTING ARTICLE 8 OF THE EU TAXONOMY REGULATION

On 12 July 2020, the Taxonomy Regulation entered into force. The Regulation imposes additional requirements on large public-interest companies covered by the Non-Financial Reporting Directive ("**NFRD**"), including companies with EU-listed debt or equity, banks and insurance companies and other designated national authorities³. Any such entity will need to include in its non-financial statement details of how and to what extent its activities qualify as environmentally sustainable under the Taxonomy Regulation. The first delegated act concerning the technical screening criteria for economic activities which substantially contribute to climate change mitigation and adaptation (the "**Climate Delegated Act**") was adopted on 21 April 2021. Another delegated act specifying the technical screening criteria for the remaining four environmental objectives (the "**Environmental Delegated Act**") will be developed in due course.

In addition, Article 8(4) of the Taxonomy Regulation requires the Commission to adopt a delegated act specifying the precise requirements for these new disclosures ("the **Disclosure Delegated Act**"). On 6 July 2021, the EU Commission adopted the final Disclosure Delegated Act, supplementing Article 8 of the Taxonomy Regulation. The European Parliament and the Council have a period of 4 months, extendable once by 2 months, to scrutinise the delegated act. Following this, the delegated act should apply from 1 January 2022⁴. The delegated act will apply to entities to which the NFRD applies (e.g. large public-interest companies (with more than 500 employees), including companies with EU-listed debt or equity, banks and insurance companies and other designated national authorities). The Disclosure Delegated Act helps companies to translate the technical screening criteria of the Climate Delegated Act (and the future Environmental Delegated Act) into quantitative Key Performance Indicators ("**KPIs**") which will need to be disclosed to the public under the Taxonomy Regulation. Non-financial companies will have to disclose the proportion of their turnover, capital and operational expenditure associated with environmentally sustainable economic activities which aligns with the EU Taxonomy criteria (i.e. the Taxonomy Regulation, as well as the Climate Delegated act and the future Environmental Delegated Act). Financial institutions (banks, asset managers, investment firms and insurance/reinsurance companies) will have to disclose the proportion of taxonomy-aligned economic activities in their financial activities.⁵

The final delegated act has incorporated a number of changes following feedback collected during the consultation period which ended in May 2021. Most notably, the application of the Disclosure Delegated Act to financial undertakings has been delayed to 1 January 2024, with the understanding that certain exposures and investments of financial institutions, including in relation to sovereign debt and non-NFRD undertakings, may not have been fully reflected in their KPIs. The Disclosure Delegated Act will be revised by 30 June 2024 to include such exposures and investments in the scope of the KPIs for financial institutions.⁶

3. PROPOSAL FOR A REGULATION ON A VOLUNTARY EUROPEAN GREEN BOND STANDARD ("EU GBS")

The establishment of an EU GBS was one of the proposed actions in the Commission's 2018 action plan on financing sustainable growth. The EU GBS proposal, published on 6 July 2021, is largely based on the recommendations of the Technical Expert Group on Sustainable Finance and will now be submitted to the European Parliament and Council as part of the co-legislative procedure.

This proposal aims to create a common framework for the rules relating to the use of the "European green bond" or "EUGB" designation in accordance with the Taxonomy Regulation. It is a voluntary standard available to all private and public issuers, located within or outside of the EU, that wish to issue green bonds. Once the EU GBS has been adopted, it will set a "gold" standard on how companies and public authorities can raise funds in the capital markets through green bonds, while meeting strict sustainability requirements, addressing greenwashing concerns and protecting market integrity to ensure they are financing legitimate environmental projects.

In particular, issuers will have a robust tool to show they are funding green projects that are aligned with the EU Taxonomy; and investors buying the bonds will be able to trust that their investments are sustainable, thereby reducing the risk of greenwashing.⁷

As detailed by the EU Commission, the key features of the EU GBS are the following:

- **Inclusive:** it will be open to all EU and non-EU issuers, including corporates, sovereigns, financial institutions, issuers of covered bonds and asset-backed securities. Specific, limited flexibility will be provided for sovereign issuers.
 - **Voluntary:** it will be a voluntary standard setting out uniform requirements for any bond issuers that wish to call their bond a "European green bond" or "EU GBS".
 - **Aligned with the EU Taxonomy:** the standard requires that issuers must allocate 100% of the funds (proceeds) raised by their bond to economic activities that meet the EU Taxonomy requirements, by the time the bond matures.
 - **Supporting issuers in transition:** European green bonds can be used to fund long-term projects (duration up to 10 years) that transform an economic activity, so as to align with the EU Taxonomy.
 - **External review:** European green bonds will be checked by an external reviewer to ensure that the bonds are compliant with the EU GBS Regulation, in particular with regard to the Taxonomy-alignment of the funded projects. External reviewers will be registered with the European Securities and Markets Authority and will need to meet the conditions for registration on an ongoing basis.
 - **Grandfathering:** in the event of a change to the EU Taxonomy technical screening criteria after bond issuance, issuers can make use of pre-existing criteria for five more years.
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1. [Factsheet on the strategy for financing the transition to a sustainable economy](#)
2. [Commission puts forward new strategy to make the EU's financial system more sustainable and proposes new European Green Bond Standard](#)
3. Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.
4. [FAQ: What is the EU Taxonomy Article 8 delegated act and how will it work in practice?](#)
5. [Commission puts forward new strategy to make the EU's financial system more sustainable and proposes new European Green Bond Standard](#)
6. [FAQ: What is the EU Taxonomy Article 8 delegated act and how will it work in practice?](#)
7. [Commission puts forward new strategy to make the EU's financial system more sustainable and proposes new European Green Bond Standard](#)

KEY CONTACTS

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