COUNTRY EVALUATION | AS OF MAY 2019

European Union

TRANSPARENCY AND DISCLOSURE (Dimension)
Common disclosure framework (Sub-dimension)

1. Disclosure on governance SCORE 7/10

Climate change related governance aspects in mandatory reporting is not explicitly mentioned in Directive 2014/95/EU on non-financial reporting. Additionally, general governance aspects are mentioned. The same applies for the guidelines on non-financial information.
The European Commission has tasked the Technical Expert Group on Sustainable Finance (TEG) with integrating disclosure requirements in revised non-binding guidelines on disclosure of non-financial information. The revised guidelines will provide further guidance to companies on how to disclose climate change related information, in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) and the climate change related metrics developed under the new green taxonomy. The TEG working group on disclosure has published a draft report on climate-related disclosure in January 2019 and a subsequent feedback report in February 2019. Based on a consultation by the European Commission, publication of the update to the non-binding guidelines on disclosure of non-financial information is expected soon. In line with the draft report, will divide its recommendations into Type 1-3 (should, should consider and may) of which Type 1 recommendations on governance include: 1. Describe the role of the board in overseeing climate-related risks, opportunities and impacts. 2. Describe the role of the top management in assessing and managing climate-related risks, opportunities and impacts. 3. Describe the degree of climate competency that exists at board and top management level.

2. Disclosure on strategy SCORE 7/10

A non-financial statement on performance, position and impact of activities and business model, relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters is binding by Directive 2014/95/EU on non-financial reporting. Climate-related aspects are vaguely covered.
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lated risks the organization has identified over the short, medium, and long term. The definition of short, medium and long term will depend on the company's business model and the life cycle of its assets and liabilities. 2. Impact of the company's activities on climate change and natural capital dependencies also including those related to water consumption, deforestation, biodiversity loss, pollution, land use, etc., where relevant. Disclosure on resilience of a company's strategy against a 2° scenario remains in Type 2 & 3 recommendations.

3. Disclosure on risk management **SCORE 7/10**

Directive 2014/95/EU on non-financial reporting does not outline in detail what aspects and how should be reported concerning climate change related risks, even though the description of potential risks and mitigation strategies are required. The long-term perspective of climate risks is not addressed.

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4. Disclosure on metrics and targets **SCORE 7/10**

The Guidelines on non-financial information or Directive 2014/95/EU do not require companies to report on targets or describe metrics used, nor defines standard metrics to be used.

Some targets are set (e.g. Horizon 2020 targets: 20% cut in greenhouse gas emissions (from 1990 levels); 20% of EU energy from renewables; 20% improvement in energy efficiency) and some policy propositions have been made to achieve the targets (effort sharing decision, reformation of the ETS etc.). However, there is no general explanation how to transfer these high-level targets to individual actors. There are no targets for the financial sector.

The European Corporate Reporting Lab has been established in 2018 as part of the European Financial Reporting Advisory Group (EFRAG), to promote innovation and the development of best practices in corporate reporting, such as environmental accounting. In this forum, companies and investors can share best practices on sustainability reporting, such as the climate change related disclosure in line with the TCFD's recommendations. The Lab has just appointed its steering group.

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6. Adapt accounting standards **SCORE 3/10**

Even though the European Commission considers a revision of the accounting standards reflection on introducing guidelines to account for environmental impact have not been expressed so far. Current regulation (Guidelines on non-financial information, Directive 2014/95/EU, IFRS) do also not implicitly cover environmental accounting.
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7. Accounting for stranded assets risk **SCORE 3/10**

Currently IFRS 6 (Exploration for and Evaluation of Mineral Resources) and IFRS 36 (Impairment of assets) generally regulate the accounting for impairments with specifications for the mineral, oil and gas sector. The current standard makes impairment of stranded assets not mandatory.
The European Commission will request European Financial Reporting Advisory Group (EFRAG), where appropriate, to assess the impact of new or revised IFRSs on sustainable investments. The Commission has will asked EFRAG to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. In Q4 2018, EFRAG reported on the impact of IFRS 9 on long-term investments and potential improvements to the standard for the treatment of equity instruments. The European Corporate Reporting Lab has been established in 2018 as part of the European Financial Reporting Advisory Group (EFRAG), to promote innovation and the development of best practices in corporate reporting, such as environmental accounting. In this forum, companies and investors can share best practices on sustainability reporting, such as the climate change related disclosure in line with the TCFD's recommendations. The Lab has just appointed its steering group. The Lab might further investigate stranded asset risks.

1. Investment evaluation transparency **SCORE 7/10**

The Shareholder Rights Directive II requires institutional investors and asset managers to draw up and publish a Shareholder Engagement Policy. This policy must comply with transparency requirements with respect to ESG and includes information obligations on climate change related aspects. The directive does not specify exactly what information the policy must contain in this context and to what extent.
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2. Shareholder responsibility for governance and strategy **SCORE 6/10**

The Shareholder Rights Directive II outlines the shareholder's responsibility and includes the concept of shareholder activism. It makes reference to the UN Principles for Responsible Investment and clearly outlines the necessity from a shift from short termism to a long term investment horizon. However, its framing is rather vague and leaves much space for country regulation design. This may signify a risk that national regulation will be implemented rather loosely.
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3. Asset manager responsibility **SCORE 7/10**

The Shareholder Rights Directive II outlines the duties of asset managers to cover non-financial aspects, and introduces a mid to long-term perspective. However, it is not stipulated on which time horizon non-financial aspects have to be taken into account (longer than the investment horizon of the investor?). Climate change related aspects are not outlined in detail.
Pension: Institutions for occupational retirement provision (IORPs): IORP II/ Directive 2016/2341 allows IORPs to take into account the potential long-term impact of investment decisions on climate change related factors. IORP II explicitly states the reflection of climate change related aspects in multiple areas such as risk management, governance, potential member information

4. Executive remuneration policy **SCORE 5/10**

The Shareholder Rights Directive II requires companies to disclose the principles of executive remuneration and indicate the impact climate change related performance aspects have on remuneration. It does not require that these aspects form part of the factors to be included in the remuneration.

5. Climate change related risk management **SCORE 7/10**

Pension: IORP II makes climate change related risk assessment mandatory for pension funds and related products. Insurance: Solvency II: Requires insurers to take future developments into account including new business plans or the possibility of catastrophic events which might affect their financial standing. The Own Risk and Solvency Assessment (ORSA) is a new tool designed to assist with this. However, it does not outline climate change related factors in explicitly.
Other assets: UCITS/AIFMD doe currently not include related considerations.
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In line with the draft report, will divide its recommendations into Type 1-3 (should, should consider and may) of which Type 1 recommendations on risk management include: 1. Describe systems and processes in place for identifying and assessing climate-related risks and impacts, and how they are integrated into their overall risk management. An important aspect of this description is how the company determines the relative significance of climate-related risks in relation to other risks. 2. Describe processes for managing climate-related risks (if applicable how they make decisions to mitigate, transfer, accept, or control those risks).

6. Customer/beneficiary centricity **SCORE 3/10**

Currently the applicable regulation does not implicitly include related provisions (IORP II / PEPP / Solvency II / MiFID I I/ UCITS / AIFMD / Shareholder Right Directive II).
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Disclosure on processes to integrate consumer preferences into the investment decision process is a Type 3 recommendation, meaning that consumer centricity remains not strongly suggested.

1. Packaged Retail and Insurance-based Investment Products (PRIIPs) — SCORE 3/10

The European Supervisory Authorities ESMA, EBA and EIOPA (the ESAs) are mandated to develop design proposals for relevant information for PRIIPs investors.
New information standard for all packaged investment products" (PRIIPs), in particular investment funds, endowment life insurance and certificates is enacted though EU Regulation 2016/2340.
In line with the Action Plan on financing sustainable growth, prospectus requirements will be adjusted in Q2 2019.

2. Investment advisor duties — SCORE 7/10

ESMA is in the process of updating MIFID II to integrate sustainability risks into risk assessment and management as well as governance structures and consumer preferences. A consultation report was published in December 2018, which shows that ESG risks should be considered where relevant. The final report has been published on 30 April 2019.

3. Retail product transparency — SCORE 2/10

ESMA is in the process of updating MIFID II to integrate sustainability risks into risk assessment and management as well as governance structures and consumer preferences. A consultation report was published in December 2018, which shows that ESG risks should be considered where relevant. The final report has been published on 30 April 2019.
Mandatory reporting on climate change related risk assessment and measurement is not explicitly required. Neither the Regulation 809/2004 nor EU prospectus directive 2017/1129 does not foresee changes in this regard.
The Commission plans to create low-carbon and positive-carbon impact benchmarks for all relevant products in order to increase also retail product transparency. The report on green benchmarks is expected for June 2019.

4. Green labels/standards — SCORE 4/10

The Action Plan on financing sustainable growth foresees that the Commission will explore the use of the EU Ecolabel framework for certain financial products, to be applied once the EU sustainability taxonomy is adopted by the end of 2019.
The European Commission's Technical Expert Group (TEG) on sustainable finance has further prepared a report on an EU green bond standard. A draft version of green taxonomy developed by the TEG is expected for June 2019.

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY **(Dimension)**
Supervisory authority positioning (Sub-dimension)

1. Regulatory body's/bodies' awareness to climate risk integration **SCORE 9/10**

EU Commission and its financial supervisory bodies (ESRB, EBA, EIOPA, and ESMA) provide comprehensive awareness raising on climate change related risk as part of their work on sustainable finance. ECB is also actively addressing climate change related risks in a publicly available manner.
Implementing the Commission's „Action plan on financing sustainable growth" includes formal requests for opinions, in particular requesting EIOPA for its opinion on action item 8 of the Action Plan by the end of September 2019.
Methodological guidance for risk management is in preparation with the implementation of the European Commission's Action Plan on Financing Sustainable Growth.

2. Climate change and systemic risk **SCORE 9/10**

European System Risk board ESRB provides a publicly available knowledge base on climate change related risks and their potential systemic implication.
Recent studies include „Too late too sudden: Transition to a low-carbon economy and systemic risk", 2016.

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY **(Dimension)**
Supervision of banks (Sub-dimension)

1. Supervision of bank governance/strategy reflecting climate change related risk **SCORE 4/10**

Directive 2013/36/EU (CRD IV Directive), the 2018 revised EBA Guidelines on the SREP (Supervisory Review and Evaluation Process) and ECB SREP guidance include the need for a sustainable strategy and governance structure reflecting all risks and covering at least a time horizon of 3 years.
There thus can be initial practice reflecting climate change related risk if a comprehensive view is taken but not explicitly guided by regulation.

2. Minimum requirements for bank risk management (in the context of the supervisory review process) include ESG/climate risks and a long-term perspective **SCORE 4/10**

Based on the Directive 2013/36/EU (CRD IV Directive) and EBA Guidelines, there is a comprehensive perspective on all material risks to be considered by banks' risk management, while not explicitly referencing climate change related risk. Thus, there is implicit coverage in principle to climate change related risks if material.

3. Scope of supervisory reports of the regulator (risk profile for banks) during the annual supervisory review process covers ESG/climate risks and a long-term perspective **SCORE 6/10**

Directive 2013/36/EU (CRD IV Directive) and the 2018 revised EBA Guidelines on the SREP (Supervisory Review and Evaluation Process) provide a comprehensive perspective on material risks to be considered in the supervisory review. Climate change related risk is not explicitly mentioned but implicitly covered in principle or by reference respectively.
ECB Banking Supervision's Single Supervisory Mechanism (SSM) Risk Map for 2019 includes climate related risks for the first time, thus including them as a supervisory priority for 2019.
The recently agreed new banking package CRD V/CRR II mandates EBA to prepare a report on how to incorporate environmental, social and governance (ESG) risks into the supervisory process.

4. Banking stress tests consider climate risks and a long-term perspective **SCORE 4/10**

Directive 2013/36/EU and EBA guidelines take a comprehensive perspective on risk and assumptions to be considered, while not explicitly referencing climate change related risk.
No reference to climate change related risk in EBA EU-wide stress test 2018. With 2019 risk priorities climate related risk may play a role in the next biannual stress test 2020.

5. Capital requirements reflect ESG/climate risks and a long-term perspective **SCORE 5/10**

Capital requirements for banks, based on Directive 2013/36/EU and Capital Requirements Regulation (CRR)-575/2013, currently do not include an explicit reference to climate change related risks and thus a distinction of brown" or green" assets. An appropriate long-term perspective is not encouraged.
There are discussions in the context of implementing action item 8 (prudential requirements) of the Commission's action plan with regard to calibration of banks' capital requirements in the CRR and Directive to take into account climate change-related risks while safeguarding financial stability and ensuring coherence with the EU taxonomy."
The recently agreed new banking package CRD V/CRR II mandates EBA to prepare a report on on the prudential treatment of assets associated with environmental or social objectives.

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY (Dimension)
Regulation/Supervision of insurance companies (Sub-dimension)

1. Supervision of insurance governance reflecting climate change related risk **SCORE 5/10**

Based on Solvency II Directive 2009/138/EC , Delegated Regulation (EU) 2015/35 (Art. 269) takes a comprehensive perspective on the risk management function, including identification and monitoring of emerging risks . EIOPA Guidelines on the governance system include the responsibi-

lity of the management for the overall risk management system. That implicitly covers climate change related risks if material.
The Supervisory Authority EIOPA has been formally requested by the EU Commission for their technical advice on integrating sustainability risks and factors into Solvency II and delegated acts. In its draft opinion to the EU Commission, EIOPA proposes to explicitly add sustainability risks next to emerging risks (EIOPA draft consultation paper, November 2018 - final version expected by the end of April 2019).

2. Minimum requirements for insurance risk management include ESG/climate risks and a long-term perspective **SCORE 5/10**

Based on Solvency II, Delegated Regulation (EU) 2015/35 takes a comprehensive risk management perspective, (cf. Art. 259, 260, 269). This does in principle include climate change related risks if material, but is not explicitly guided by regulation.
The Supervisory Authority EIOPA has been formally requested by the EU Commission for their technical advice on integrating sustainability risks and factors into Solvency II and delegated acts. In its draft opinion to the EU Commission, EIOPA proposes to explicitly mention sustainability risks (e.g. in Art. 260) due to novelty and long-term horizon and uncertainty and it provides suggestions how to integrate this in Solvency II‘s delegated regulation (EIOPA consultation paper, November 2018).

3. Scope of supervisory review of the insurance company covers ESG/climate risks and a long-term perspective **SCORE 5/10**

EIOPA based on Solvency II takes a comprehensive risk perspective in its guidelines on the supervisory review process. This in principle includes climate change related risks while not being explicitly mentioned.
The EIOPA Financial Stability Report 12/2018 monitors relevant emerging risks for the sector and explicitly refers to climate change related risk as an emerging risk and describes it comprehensively.

4. Insurance stress tests consider ESG/climate risks and a long-term perspective **SCORE 8/10**

The EIOPA insurance stress test 2018 framework included a scenario that referred to climate change related risk (physical risks) as a driver for more frequent of natural disasters.
The EIOPA Financial Stability Report 12/2018 refers to climate change related risk as an emerging risk and describes it comprehensively. ESG risks will be part of upcoming stress tests 2019 (occupational pension funds).

5. Capital requirements reflect ESG/climate risks and a long-term perspective **SCORE 4/10**

There is currently neither an explicit reference to brown or green assets in Solvency II nor Delegated Regulation 2015/35/EU.

There is discussion of disincentives for green finance in unrated bonds and loans as well as unlisted equity (cf. HLEG's final report) awaiting EIOPA's response regarding technical advice to the Commission on unjustified constraints to financing".

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY (Dimension)

Regulation/Supervision of pension funds (Sub-dimension)

1. Supervision of pension fund governance reflecting climate change related risk **SCORE 8/10**

Directive 2016/2341/EU (IORP II Directive) requires Institutions for Occupational Retirement Provision (IORPs) to consider ESG factors in their system of governance related to investment assets/investment decisions. This includes climate change related risk.
According to Art. 19 (Investment rules) this is implicitly optional. Commission's proposal for a regulation amending Directive 2016/2341 (May 2018) includes an amendment of Art. 19 to ensure ESG factors will be included.

2. Minimum requirements for pension fund risk management include climate risks and a long-term perspective **SCORE 8/10**

IORP II Directive 2016/2341/EU, Preface 57, Art. 25 & 28 explicitly refer to ESG risk and to climate change and stranded assets respectively, to be covered by IORPs' risk management where relevant. There is no guidance on methods.
According to Art. 19, Art. 28 may be implicitly optional. In combination with preface 57, we understand Art. 28, however, as a binding approach. Commission's proposal for a regulation amending Directive 2016/2341 (May 2018) includes an amendment of Art. 19 to ensure ESG risks will be included.

3. Scope of supervisory review of the pension funds covers ESG/climate risks and a long-term perspective **SCORE 7/10**

EIOPA's Pensions stress test 2019 (launched April 2019) includes an assessment of ESG exposures for the first time. This includes climate change related risks in the sector. Results are due in December 2019.
No specific consideration of climate change related risk in Art. 49 (SRP) in Directive 2016/2341/EU.

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of asset managers and investment funds (Sub-dimension)

1. Requirements for organisation and risk management include ESG/climate risks and a long-term perspective **SCORE 5/10**

EU regulation regarding investment funds (UCITS, AIF directives) refer to a comprehensive risk management perspective without explicit reference to climate change related risks or an appropriate long-term perspective.
Commission's proposal for a regulation amending Directive 2016/2341 (May 2018) includes a reference to AIF and UCITS. It proposes that sustainability risk procedures and impacts expectation will be included in pre-contractual disclosures. This implies no requirement on comprehensiveness and time horizon of these procedures.
ESMA has been running a formal consultation on sustainability risks and factors in the UCITS and AIF directives as requested by the EU Commission. Its final report has been published on 3 May 2019. Its technical advice includes explicit reference to sustainability risks in the governance and risk management requirements.

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of rating agencies (Sub-dimension)

1. Requirements for organisation and risk management include ESG/climate risks and a long-term perspective **SCORE 5/10**

EU regulation 1060/2009 on credit rating agencies (CRA), Annex 1, requests that CRA have effective procedures for risk management. There is no explicit reference to climate change related risk but implicitly it should be covered if material.
The EU Commission's Action Plan on Financing Sustainable growth includes action item 6 on „Better integrating sustainability in ratings and market research" with regulator ESMA running a formal consultation proposing how to integrate ESG into CRA guidelines. Its final report is expected by the end of July 2019.

ENABLING ENVIRONMENT **(Dimension)**
Established and maintained common taxonomy (Sub-dimension)

1. Established and maintained common taxonomy **SCORE 5/10**

Under the EU Action Plan on Financing Sustainable Growth a taxonomy, which considers the six environmental objects, is under development by the Technical Expert Group on Sustainable Finance (TEG). The first full taxonomy report will be published in June 2019, subject to further consultation.
The aim is to embed the future EU sustainability taxonomy in EU law and provide the basis for using such a classification system in different areas (e.g. standards, labels, green-supporting factor for prudential requirements, sustainability benchmarks).

ENABLING ENVIRONMENT **(Dimension)**
Supporting green finance with public incentives (Sub-dimension)

1. Government provides financing instruments for climate change related investments **SCORE 9/10**

Several EU institutions provide financing programs on climate-related aspects.
The European Investment Bank (EIB) established Private Finance for Energy Efficiency“ (PF4EE), which is a joint agreement between EIB and the European Commission to address the limited access to adequate and affordable commercial financing for energy efficiency investments.
Risk sharing mechanisms for financial institutions are provided.
Under the European Funds for Strategic Investments (EFSI), infrastructure projects, innovation projects and SMEs, renewable energy and energy efficiency are supported. As part of the Juncker-Plan EFSI should help to overcome weaknesses in investment.
Further instruments at the European level include: ELENA (European Local Energy Assistance), InnovFin, or JASPERS (Joint Assistance to Support Projects in European Regions).

2. There are subsidies for sustainable investments/ fiscal policy/taxation of products that reflect ESG criteria **SCORE 6/10**

EIB subsidizes sustainable investments. Programmes provide instruments like mezzanine financing and subordinated loans. Moreover, EIB supports energy project developers with grants that cover risks during the research and development stage. Instruments include: ELENA (European Local Energy Assistance), InnovFin, FSF (Facility for Structured Finance), PF4EE and ETS.

ENABLING ENVIRONMENT **(Dimension)**
2-Degree Consistency of Public sector acting (Sub-dimension)

1. Government reflects climate change related risks in its investment strategy **SCORE 5/10**

Many European institutions offer green financial products and also have Environmental and Social Policies. Together with several multilateral development banks, EIB and EBRD announced a joint framework for aligning their activities with the goals of the Paris Agreement.
EIB has set itself the ambitious target of achieving this transformation by the end of 2020. However, research could not identify any generally formulated investment strategy that is binding for all European institutions nor a clear line in practice of all public entities.

2. Government agencies issue Green Bonds **SCORE 9/10**

The European Investment Bank (EIB) was the first institution to issue green bonds in year 2007. Since then, EIB has become the biggest issuer of green bonds worldwide. Until 2018, EIB has issued bonds with a volume of more than EUR 23 billion.
EIB, EBRD and ECB purchase green bonds.

3. Green public institution that provides financial services **SCORE 6/10**

Even though EIB and EBRD are not green banks", both have greening the economy as a core value. 26% of EIBs total financing flows into climate change adaptation and mitigation projects. Therefore, they are the largest multilateral provider of climate finance worldwide.

4. Central banks disclosure on climate-related risks **SCORE 0/10**

The European Central Bank (ECB) does not disclose information on climate change related aspects.

ENABLING ENVIRONMENT (Dimension)

Public capacity building and awareness raising on green finance (Sub-dimension)

1. Providing free green label certifications **SCORE 4/10**

As part of the Action Plan on Financing Sustainable Growth by the European Commission, an EU green bond standard is under development. The respective TEG-working group will prepare a report building on current best practice until June 2019. Subsequently the European Commission will specify the content of the prospectus for green bond issuance.
The Action Plan proposes to extent the scope of the EU Ecolabel to financial products. DG ENV and DG FISMA are currently coordinating the process of developing Ecolabel criteria. This process is highly dependent on the work of the TEG group on taxonomy and green bond standards.

2. Consumer education on green finance is integrated in curricula (schools, universities, general public education) **SCORE 4/10**

The Joint Research Center (JRC) is partly covering sustainable finance in its research activities. In January 2019, JRC held a conference called Promoting sustainable finance". The European Investment Bank (EIB) is also publishing research papers with focus on sustainable finance.