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Linklaters

Sustainable Finance in Europe: Regulatory State of Play

Key impacts for banks and capital markets

November 2021

Association for Financial Markets in Europe
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Contents

Foreword

Sustainable finance rightly remains front and centre as policymakers and regulators focus on the need to mobilise finance in support of the transition to a sustainable economy. AFME is committed to the development of sustainable finance through contributing to the efforts to establish an effective regulatory framework and supporting the development of markets in sustainable financing.[1]

This report provides a practical guide to the wide range of initiatives relating to sustainable finance in Europe. It highlights how the banking sector is impacted and makes a number of recommendations to further the goal of developing sustainable finance in Europe.

AFME's members are committed to supporting the transition to a sustainable economy and strongly support the further development of sustainable finance. This transition has significant implications for stakeholders across the economy, including financial services firms. In addition to providing the tools to finance businesses throughout their transition to sustainability, financial services firms are working to meet their own sustainability objectives and to integrate sustainability risks in their investment decision-making and risk management frameworks.

Very significant progress has been made, with Europe a leading region in developing the foundations for mobilising sustainable finance. We have seen ever-increasing focus on sustainability amongst investors and a significant growth in sustainable finance markets over the last few years.[2] Nevertheless, further action is needed. The European Commission estimates that Europe will need €500bn in additional investment annually over this decade to meet its 2030 environmental goals.[3] Globally, a GFMA report has estimated the funding need at $100tn-$150tn over the next three decades to support the decarbonization of ten sectors representing 75% of global carbon emissions.[4]

It is crucial that European policymakers continue to focus on putting in place effective foundations to support the growth of sustainable finance and work with their international counterparts to further the vital policy and regulatory work at international level. We have identified three priority areas of focus for further development of an overall framework that will facilitate the flow of capital to help achieve sustainability objectives.

"Very significant progress has been made, with Europe a leading region in developing the foundations for mobilising sustainable finance"

1. Finalising effective foundations

As this report demonstrates, very significant progress has been made in Europe to build a regulatory framework for sustainable finance. This includes key building blocks such as (1) developing a disclosure framework for sustainability reporting; (2) providing a common classification system of economic activities contributing to sustainability objectives through establishing a Taxonomy; and (3) ensuring that ESG risks are effectively integrated into risk management.

It is important to finalise these building blocks and ensure their effective implementation. This will help provide decision-useful information to facilitate the mobilisation of finance in support of the transition to a sustainable economy.

A key priority is to finalise the work to put in place a comprehensive framework for corporate reporting of sustainability information. This is essential to ensure that financial institutions and investors have the necessary data to allocate capital to support transition plans, and to support their own disclosures and risk management. Improved quality and consistency of ESG data is also a vital tool to help combat greenwashing and improve the quality and comparability of ESG ratings.

1 A library of selected AFME and GFMA publications is included in the annex

2 See AFME ESG Finance Report, Q2 2021

3 European Commission Strategy for financing the transition to a sustainable economy, 6 July 2021

4 Climate Finance Markets and the Real Economy, GFMA and BCG, December 2020

Significant progress has also been made on the development of taxonomies for environmentally sustainable activities. For example, we welcome the progress on the EU Taxonomy Regulation and the further emphasis in the European Commission's "Strategy for Financing the Transition to a Sustainable Economy" on enhancing the framework to better recognise the need to support financing of activities as they transition towards sustainability. We also welcome the recent UK Greening Finance Roadmap[5] providing further details of the UK's approach to sustainability disclosure requirements and the development of a Green Taxonomy.

Further areas of focus should include actions to support the growth of ESG securitisation markets and the scaling of Emissions Trading Schemes and Voluntary Carbon Markets which can play an important role in accelerating decarbonisation.[6]

2. Ensuring coherence and consistency

Due to the urgency of the task to tackle climate change, a large number of initiatives have been put in place in a short space of time. While recognising the urgency of the task at hand, it is also important to ensure that the framework is coherent and consistent, particularly as many aspects are complex and interconnected. For example, firms are subject to multiple reporting requirements under the EU Taxonomy Regulation, Non-Financial Reporting Directive (NFRD)/ Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR) and Capital Requirements Regulation (CRR) Pillar 3.[7] Disclosures by the financial services sector and the corporate sector are also closely interrelated because financial services firms are reliant on the availability of underlying ESG data from their clients in order to be able to perform their own disclosures. It is therefore important to ensure appropriate sequencing and consistency of requirements.

As the foundations are finalised, we call on policymakers and regulators to carefully consider the coherence of the framework as a whole to ensure that it is meeting its goals of facilitating the allocation of investment to meet sustainable objectives, avoids undue complexity and overlapping, duplicative or inconsistent requirements. Further enhancing the consistency, understanding and usability of the framework would facilitate its implementation and help support well-functioning sustainable finance markets. We would encourage a period of reflection and targeted revision if needed to ensure the efficiency and effectiveness of the rules. There can be great benefit in having a dedicated targeted review as demonstrated by the EMIR Refit legislation.

3. Strengthening international coordination

Climate change and other sustainability objectives are a global challenge which necessitates an internationally coordinated response. In order to maximise the benefits of sustainable finance, it is vital to leverage international capital markets and to provide a coherent approach for multinational businesses and financial institutions which are key to supporting the transition.

We strongly support the work at international level including the work led through the G20 and coordinated through the Financial Stability Board, IOSCO, Basel Committee and other international standard setting bodies. We welcome the FSB Roadmap for Addressing Climate-Related Financial Risks[8] and, in particular, the establishment of the International Sustainability Standards Board to develop an international baseline standard for sustainability reporting. Important work is also under way through bodies such as IOSCO, BCBS and the voluntary coalitions established by the Central Bank and Supervisors Network for Greening the Financial System and the International Platform on Sustainable Finance amongst others.

"Climate change and other sustainability objectives are a global challenge which necessitates an internationally coordinated response"

5 Greening Finance: A Roadmap to Sustainable Investing, October 2021

6 Unlocking the Potential of Carbon Markets to Achieve Global Net Zero, October 2021

7 See AFME ESG Disclosure Landscape for Banks and Capital Market in Europe, April 2021

8 FSB roadmap for addressing climate-related financial risks

We encourage the European authorities to continue to closely engage in this international work, ensure that European regulation takes account of the broader international context and maximise the consistency and interoperability of European and international standards.

We build upon these high level recommendations in the next section of the report which provides an overview of the key impacts on the banking sector and AFME's recommendations for further enhancements to the framework. This is followed by a detailed analysis of the various initiatives which highlights the key impacts for the banking sector.

Alongside the development of the regulatory framework for sustainable finance, it remains essential for governments to maintain their focus on setting out detailed plans for meeting their sustainability targets including defining sectoral transition pathways. This is a critical component to facilitate real economy transition plans and the finance associated with meeting them.

I would like to extend my thanks to Linklaters, Lenz & Staehelin and the significant contributions by AFME's members in producing this report. I hope that it provides a helpful guide to anyone looking to understand the European sustainable finance framework and a constructive contribution to furthering the development of sustainable finance.

Adam Farkas
Chief Executive
Association for Financial Markets in Europe

"It remains essential for governments to maintain their focus on setting out detailed plans for meeting their sustainability targets"

Sustainable Finance in Europe: Regulatory State of Play

Introduction

This guide is intended to act as a practical roadmap for AFME members by providing them with a snapshot of the main sustainable finance regulatory developments within the European Union ("**EU**"), the United Kingdom ("**UK**") and Switzerland, key timelines, the areas of their business that will be impacted directly and indirectly (e.g. due to client demand or market expectations).

Part one provides an overview of the most significant areas of sustainable finance regulation and highlights the key impacts for the banking sector. It also sets out AFME's policy recommendations as the regulatory framework continues to develop going forward.

Part two includes a timeline identifying key implementation dates and milestones, and a table providing a more detailed overview of the multitude of regulatory initiatives in the EU, UK and Switzerland, identifying key milestones and actions for AFME members.

Part 1: Overview of key impacts and policy recommendations

The regulatory framework for sustainable finance has developed at pace and work is continuing amongst legislators, regulators and the private sector with the objective of supporting the mobilisation of finance to support sustainability goals and ensure the resilience of the financial sector to ESG-related risks. It encompasses the regulatory, legislative and policy context of transitioning towards a sustainable economy supported by the development of sustainable finance initiatives.

In the European Union, this is framed by the European Commission's renewed Sustainable Finance strategy (published mid-2021), which proposes over 50 legislative and non-legislative initiatives to be implemented. The EU Commission's 'Fit for 55' package also promotes new climate targets for the EU to meet. It is largely through these initiatives that the European Commission sets out its forward-looking sustainable finance strategy. In the UK, the government recently published a roadmap on Greening Finance which sets out its proposed approach to legislation and regulation.

Whilst dominated by a package of specific EU legislation (namely the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation and the Benchmarks Regulation, which has introduced two types sustainability benchmarks), the sustainable finance legislative framework by necessity spills into key pieces of existing sectoral legislation, from MiFID II, UCITS, AIFMD, to the insurance directives, IDD and Solvency II. An expansion of some of the well-known concepts in these frameworks around suitability, conflicts of interest, product governance and risk management builds a consideration of sustainability factors into these pre-existing frameworks across the financial services.

Banks are impacted on several fronts. They face significant challenges to implement sustainability disclosure requirements, integrate sustainability into risk management, further develop markets in sustainable products and to support their clients throughout the transition. Given the focus on the financial services sector as way to drive sustainability goals within the broader economy, maintaining a close eye on the horizon pinpointed in these regulatory action plans, strategies and roadmaps is essential for AFME members, whose business lines, customer bases, sectors, services and infrastructure may be significantly impacted by the changes that these proposals herald. Whilst not themselves posing concrete actions which AFME members must take, these papers are key to understanding the direction of travel for sustainability within the financial services sector.

The key elements of the regulatory framework include:

1. Sustainability reporting and disclosures;
2. The development of taxonomies for sustainable activities;
3. The development of market standards;
4. Incorporation of ESG into risk management; and
5. Initiatives relating to sustainable corporate governance.

1. Sustainability reporting and disclosures

Disclosure and reporting are the key mechanisms through which financial services firms are held to account for their sustainability ambitions. In the EU, these mechanisms will largely be delivered by the EU's Corporate Sustainability Reporting Directive ('CRSD') (which amends the Non-Financial Reporting Directive and which will apply to AFME members directly) and, albeit with a focus on asset managers, via the Sustainable Finance Disclosure Regulation ('SFDR'). This package of legislation aims to prevent greenwashing by making transparent the sustainability profiles of financial institutions, and the products and services they offer.

Key implementation challenges

The CSRD, along with the bank-focussed disclosure obligations in the Taxonomy Regulation and the asset manager-focussed obligations in SFDR, represent a significant data and reporting obligation that covers the breadth of the financial services sector, with firms needing to implement complex data capture and reporting systems to be ready for their reporting deadlines. Qualitative reporting under the Taxonomy begins in 2022, while more granular reporting for non-financial undertakings begins in 2023 (for financial year 2022). Banks' detailed disclosures of their Green Asset Ratio (or GAR) begins in 2024 (for financial year 2023). The GAR provides an important metric, but its calculation is highly complex and may suffer from methodological issues which undermine its reliability and its effectiveness. Thus, AFME advocates for the disclosures to be phased in and be evaluated for their effectiveness over time.

The SFDR is a pillar of the EU fight against greenwashing and aims to enhance the availability and comparability of sustainability information to benefit end-investors interested in sustainable finance. Beset with delays, the detailed Level 2 provisions defining how information should be presented have only recently been published. Hoped for by the end of 2021, the provisions will come into effect in July 2022. However, due to SFDR's links with the Taxonomy, financial market participants continue to face difficulties with its implementation, as the reporting made under the Taxonomy will not be available as the requirements under SFDR are phased in throughout 2022.

AFME views and recommendations

The implementation of sustainability disclosure requirements is an essential building block to enhance the quality and availability of ESG data, upon which investment and risk management decisions can be accurately made.

In the EU, a key priority is delivering on the CSRD proposal to put in place comprehensive sustainability reporting requirements to provide investors and banks with the necessary data on which to assess the sustainability of companies' businesses in a consistent and comparable manner.

The UK government's recent Greening Finance[9] publication includes a roadmap for Sustainability Disclosure Standards, building upon requirements for mandatory TCFD-aligned disclosures.[10] AFME members in the UK will be subject to mandatory TCFD-reporting in the next one to four years, with different timetables emerging globally as countries move towards adoption of the recommendations.

"The implementation of sustainability disclosure requirements is an essential building block to enhance the quality and availability of ESG data"

9 Greening Finance: A Roadmap to Sustainable Investing,18 October 2021

10 AFME response to FCA consultation on climate-related disclosures and ESG topics in capital markets

International interoperability

As different jurisdictions make progress with the development of sustainability reporting standards, each tailored to the region's specificities and showing different levels of ambition, it is very important for the scope of requirements to be considered in the international context and a proportionate approach adopted.

Significant challenges arise for firms with international operations with respect to requirements to report on their exposures in other jurisdictions where businesses are not required to disclose the relevant data. For this reason, AFME welcomes the establishment of the International Sustainability Standards Board (ISSB) to develop a baseline for international sustainability reporting standards. This will be vital to support international companies disclose reliable and comparable information and form a common baseline upon which jurisdictions can build as appropriate.

Coherence of disclosure requirements

As AFME has highlighted,[11] it is essential to construct a coherent framework for disclosures by financial market participants across regulation. In the EU, firms are subject to multiple sources of disclosure requirements including under the Taxonomy Regulation, SFDR, CRR Pillar 3 reporting and CSRD. It is also essential to ensure appropriate sequencing of disclosures as banks require reliable data from their clients in order to reliably report on the sustainability of their financing. For CRR Pillar 3 disclosures, we recommend a building block approach and a gradual adaptation of its granularity alongside the CSRD implementation and the development of international standards.

2. Development of Taxonomies

Creating a common classification of sustainable activities is important to enhance the understanding of what is sustainable and facilitate the alignment of investments with sustainability goals. With the starting point being the "environmental" aspect of ESG, the first step in developing a sustainable finance framework is a determination of whether an activity is environmentally sustainable. The purpose of the EU's Taxonomy Regulation is to provide a system of classifying activities considered to be environmentally sustainable, as well as to provide an objective method for determining environmental performance. Broadly, an activity is sustainable if it contributes to one of six environmental objectives set out in the Regulation (the focus so far has been on the first two which relate to climate change), if it does no significant harm to any other of the six objectives, and respects basic human rights and labour standards. This can be complex and challenging for firms to navigate to determine whether a particular activity meets the relevant criteria.

As in many areas of sustainable finance, the EU has led the charge with the development of its Taxonomy. Beginning with its "green" taxonomy, this is indeed only the beginning: there are already proposals for the development of "significant harm" (sometimes known as "brown") taxonomies, which are expected to categorise businesses along a sustainability spectrum, and a social taxonomy to align the measurement of social dimensions, such as the creation of inclusive and sustainable communities.

The EU's Taxonomy Regulation represents a core component of the sustainable finance framework for AFME members, who will be required to measure and report on their own Taxonomy eligibility and alignment in the near future, as well as driving data and reporting obligations for their clients. The UK has also commenced work on a Green Taxonomy based on a similar structure to the EU Taxonomy and input from the Green Technical Advisory Group (GTAG).

"The first step in developing a sustainable finance framework is a determination of whether an activity is environmentally sustainable"

11 ESG Disclosure Landscape for Banks and Capital Markets in Europe (April 2021)

AFME views and recommendations

The EU Taxonomy is a tool that provides an objective, science-based, approach to identifying economic activities that exhibit the degree of environmental performance aligned with achieving the Paris Agreement targets. AFME welcomes the significant work to establish the Taxonomy and the emphasis on enhancing the framework to better recognise the need to support financing of activities as they transition towards sustainability in the European Commission Strategy for Financing the Transition to a Sustainable Economy. It is important for taxonomies to recognise both activities and companies that are already low carbon, but also be forward-looking and include companies that demonstrate the commitment and potential for transition. The industry would also benefit from more clarity on how to design and assess transition plans aligned with the "Fit for 55" package and with sector-specific decarbonization milestones. AFME also considers that further work on ensuring effective implementation and usability of the taxonomy is important.

As other jurisdictions develop taxonomies, it is important to minimise fragmentation and ensure that reporting requirements built off Taxonomies can inter-operate across jurisdictions and we encourage equivalence/deference concepts be incorporated into their development. AFME welcomes the work of the International Platform on Sustainable Finance including its work on a common ground taxonomy to seek to improve international interoperability.[12] Whilst there is no "silver-bullet" for the creation of a single global Taxonomy, all existing and new taxonomies should be assessed against a set of global principles and tailored to regional or national specificities, climate targets and policies, and sector-specific transition pathways.[13]

Beyond environmental objectives: a social taxonomy

In addition to its taxonomy for environmental sustainability, the EU is considering the development of a taxonomy for social objectives to support socially sustainable investments. The demand for investments which support social objectives continues to grow with increased focus on the "S" in ESG. A principles-based social taxonomy has the potential to strengthen market participants' common understanding of social issues and provide investors with decision-useful information. Firms could benefit from a common definition of social activities applicable across the EU when defining their business objectives and, for financial institutions, when engaging with clients and investors or when gathering sustainability information.

However, whilst there is broad agreement among investors on the objectives and metrics to use when screening environmental impact, social issues often have a qualitative, less tangible nature and are based on cultural, historic and sometimes political and/or policy factors that may vary significantly across jurisdictions as well as within the European Union. AFME members have also highlighted the significant challenge with the availability of comparable data on social factors and this needs to be carefully considered.

12 See IPSF Common Ground Taxonomy package, 4 November 2021

13 GFMA Global Guiding Principles for Developing Climate Finance Taxonomies – A Key Enabler for transition Finance

3. Market labels/standards and development of sustainable capital markets

Market-based standards can help support the development of sustainable finance products and markets. There has been very significant growth in the markets for green bonds and other ESG-related products over the last few years and the market continues to grow.[14] Fixed income products and securitisation play an increasingly important role in funding the transition. Key enablers are a large pool of eligible assets and increased disclosure, enabling investors' due diligence on the originators.

As highlighted by AFME's quarterly ESG finance reports, the issuance of green debt has grown very significantly in recent years based on market standards. Initiatives such as the Commission's proposal for an EU Green Bond Standard (EU GBS) can increase confidence in the market and further stimulate the demand for ESG-labelled products. The standard adopts the EU Taxonomy as the reference framework to identify eligible activities to finance with a Green Bond. Nevertheless, the current proposal and its close link with an unfinished Taxonomy raise practical challenges - related, notably, to the lack of flexibility with the allocation of proceeds and the potential loss of the "green" designation if the Taxonomy's criteria change before the bond's maturity.[15] The markets need certainty and, if we want EU GBS to be an appreciated international standard, AFME considers that the green bond status should be granted until the maturity of the bond, irrespective of changes to the Technical Screening Criteria.

While there has been significant development of green and sustainable bond markets, the development of other important financing products is at a less advanced stage. Areas for further development include equity and securitisation markets, reflecting estimates that 35% of the funding needed to meet the Paris goals is required from equity, alongside 44% from loans and 21% in bonds.[16]

Development of ESG securitisation markets

Securitisation has huge potential to contribute to sustainable finance. Securitisation in its different forms allows capital market investors to contribute to specific projects and activities in a risk-appropriate manner. It also constitutes an important tool for financial institutions in managing capital, leverage and funding. It provides banks and other originators with a tool for transferring assets out of their balance sheets, thus increasing their capacity for lending to ESG projects; and by pooling together ESG loans which are then financed by more liquid securities, securitisation gives investors access to sustainable investments financing newly built energy efficient houses, residential and commercial rooftop solar energy loans, loans for home insulation, SME loans for sustainable projects, mortgage and other loans for social housing provision and small scale infrastructure projects.

AFME is working with its members to support the development of this market. AFME has published principles which identified priorities for developing a green securitisation market in Europe and ESG Disclosure and Diligence Practices for the European Securitisation Market[18]. While there has been some development of the market, it remains relatively small and further progress will be important to support the growth of European ESG securitisation markets.

14 See AFME ESG Finance Report, Q2 2021

15 ICMA Analysis of the draft EU GBS Regulation (8 July 2021)

16 GFMA and BCG Report on Climate Finance Markets and the Real Economy

17 AFME Principles for developing a green securitisation market in Europe, September 2019

18 AFME ESG Disclosure and Diligence Practices for the European Securitisation Market, March 2021

Scaling carbon markets to achieve global net-zero

In order to meet the Paris Agreement goals, carbon price levels need to increase to an estimated $50-150/tonne average by 2030 from the current global average of <$5/tonne. Nevertheless, today, almost 80% of greenhouse gas emissions are not covered by regulated carbon pricing and carbon markets remain very fragmented. Both compliance markets, primarily structured as emission trading schemes (ETS) wherein participants trade emission allowances, and voluntary carbon markets must grow to support the decarbonisation of the economy. Effective, impactful carbon markets that drive science-based decarbonization are an essential tool in enabling an effective and efficient marketplace for deploying carbon pricing and, in turn, they are a critical requirement for mobilising investment in the transition to a low carbon technology.

The Global Financial Markets Association (GFMA) and Boston Consulting Group's (BCG) report "Unlocking the Potential of Carbon Markets to Achieve Global Net Zero"[19] highlights the complementary role of compliance and voluntary carbon markets in achieving decarbonization. The report sets out a vision for the evolution of carbon markets, highlights the challenges which the public and private sector need to overcome to urgently scale carbon markets, and provides a set of recommendations to achieve this from a practitioner's viewpoint. These include

- Further scaling and enhancement of Emissions Trading Systems (ETSs) is critical as existing initiatives lack coverage and effectiveness. It's necessary to enhance the geographic scope, sectoral coverage, and decarbonization rates of ETS schemes to support Paris Agreement goals.
- A clear, complementary, role for voluntary carbon markets is needed. To strengthen trust in the voluntary market, and to enable it to grow from the current scale of <0.5% global emissions, it is critical to develop stringent standards to ensure verifiable "additional" emissions reductions.

4. Prudential requirements and risk management

While disclosure and reporting has developed as an important limb of the sustainable finance framework, it is accompanied by an equally important focus on the quantification of climate change risk as a financial risk. The impact of environmental risks must be factored into prudential and risk management frameworks. This is an important focus of regulators and banks. Initiatives include proposed amendments to prudential legislation, notably the Capital Requirements Regulation, and it is a focus of the ECB and EBA in their publication of their supervisory expectations and guidelines on how risk management frameworks should adapt for inclusion of this category of risk.

Stress testing has continued to be an important tool in assessing the sector's resilience to financial risk, both by regulators and by credit institutions in their internal modelling/risk analysis. Whilst regulators continue to explore stress test scenarios for their broad bank sector assessments, they are also being developed for use in climate change-specific risk analysis. Notably, the ECB has been conducting a first-of-its-kind, economy-wide climate stress test which encompasses 2000 euro-are banks and the Bank of England is conducting a Biennial Exploratory Scenario on financial risks arising from climate change.

"The impact of environmental risks must be factored into prudential and risk management frameworks"

19 Unlocking the Potential of Carbon Markets to Achieve Global Net Zero, October 2021

AFME views and recommendations

Alongside efforts to mobilise sustainable finance, it is also critical to understand and ensure that financial institutions and the financial system are resilient to financial risks which arise from climate change. A number of initiatives, notably in the EU and UK, aim at investigating the systemic impact of physical and transition risks on the financial sector and the economy as a whole and the regulators have established supervisory expectations on the incorporation of climate risk into risk management. As banks develop models for ESG risks we support a non-prescriptive, flexible approach to methodologies to enable experimentation and allow banks to establish the most appropriate mix and use of them for their business models.

Policymakers and regulators are also considering how these risks should be reflected in the capital framework and reporting of ESG risks under the CRR by banks is first expected in early 2023. Any potential specific treatment distinguishing between 'green' or 'brown' assets needs to be consistent with the principles of traditional prudential regulation and should be agreed at an international level as far as possible. Any differentiation should be done in a dynamic, forward-looking and risk-oriented way and consider methodologies that include a forward-looking perspective in addition to existing backward-looking analyses to enable a more accurate calibration of regulatory capital requirements reflecting the long-term climate risk profile of assets. We would urge caution on differentiating between "brown" and "green" assets based on a static classification of economic activities established by the EU Taxonomy Regulation.

With regard to incorporating ESG risks into the Pillar 2 framework, it will be necessary to phase these in and take account of developments in disclosure/reporting and banks' progress in building capability in these areas, focusing on the most relevant and easy to implement aspects first, such as internal governance and risk management, followed by credit risk and liquidity risk at a later stage.

Overview of current BoE and ECB climate stress tests

A number of central banks and supervisory authorities have developed stress tests for the banking sector to assess climate-related risks.[20] The Bank of England is conducting its Biennial Exploratory Scenario exercise utilising scenarios to assess both transition and physical risks with results expected in May 2022. The ECB is also conducting its Climate Risk Stress Test between March and July 2022. Both undertakings are considered a learning exercise and no capital impact is envisaged.

AFME considers that climate stress tests will be a key component of climate risk analysis and supports the approach of regulators to not impose additional capital requirements linked to its results. AFME would encourage standardising the process and timing of stress tests, and pursuing better alignment of supervisors' climate risk scenario analysis and stress testing frameworks across jurisdictions and we welcome the work of the NGFS in this area. This includes alignment not only on the scenarios used but also the design, scope, outputs and use of the exercise results. Ideally this should be coordinated through the FSB and Basel Committee.

"It is critical to ensure that financial institutions and the financial system are resilient to financial risks which arise from climate change"

20 See NGFS Progress report on climate scenario exercises

Sustainability in research and ratings

Market developments have driven an increase in the demand for high-quality ESG information, while complying with regulation means that financial market participants have to rely on different sources to collect very significant amounts of data, including third-party data providers. In this context, AFME supports regulators' efforts to embed best practices for transparency on methodologies and management of conflicts of interest in the market for ESG data, research and ratings.

EU and UK regulators have noted the prominence of ESG data and ratings providers as the market for ESG products grows, and to the risks they pose where there is no requirement for standardisation or transparency in their methodology. As such, regulation of ESG ratings in a similar way to the regulation of benchmarks is on the horizon, with the focus on transparency, governance and conflicts of interest

The European Commission's "Strategy for Financing the Transition to a Sustainable Economy" foresees initiatives to improve the availability, integrity and transparency of ESG market research and ratings, building on a comprehensive study carried out by the Commission.21 We are expecting the Commission to open a targeted public consultation on the functioning of the market for ESG ratings by the end of 2021. The FCA is also considering this issue, with the publication of FCA policy in this space also expected by the end of the year and the UK government considering bringing these firms into the scope of FCA authorisation and regulation.[22]

At an international level, AFME welcomes IOSCO's work to put forward a series of recommendations to address risks stemming from the activities of ESG ratings and data providers23 as well as the challenges faced by users of their products and services. We support initiatives aimed at increasing transparency in the market for ESG ratings and data on how providers gather and process information, address potential conflicts of interest, and engage with the rated companies.

21 Study on sustainability-related ratings, data and research

22 Greening Finance: A Roadmap to Sustainable Investing,18 October 2021

23 See GFMA response to IOSCO consultation on ESG Ratings and Data Products Providers

5. Sustainable corporate governance

For the majority of the measures identified in this report to succeed in delivering on their objectives, there needs to be a robust corporate governance framework supporting their implementation and ongoing compliance. Therefore, enhancements to the prudential framework are accompanied by governance requirements around risk management and control, and the focus on disclosure and reporting has led to the development of much more stringent requirements in relation to ESG and human rights due diligence along the supply chain. AFME members will need to dedicate sufficient resources to manage, control and oversee the governance risks arising from this increasing and evolving compliance burden, as well as ensuring adequate understanding and knowledge of, and responsibility for, these changing risks and obligations at senior management level.

AFME views and recommendations

AFME supported the European Commission's first steps in developing a Sustainable Corporate Governance initiative, supporting measures that further embed sustainability in how businesses operate. We believe that, for long-term success, companies should be encouraged to integrate ESG considerations across all their functions and activities, including risk management, due diligence and governance practices.

AFME advocates for proportionate measures when amending directors' duties or introducing due diligence duties across the value chain. Such measures should consider the specifics of the financial sector, such as the existing policies linking remuneration to climate and sustainability metrics, or the ESG risk management practices as well as changes already made to prudential rules. A condition for the success of this company law initiative lies in reaching consensus on common definitions, such as for "business relationships" or "value chain", and identifying due diligence best practices, within the EU and internationally.

Sustainable corporate governance should be measured against each company's unique business model, responsibility towards its stakeholders, impact on any affected communities, and components of the value chain. We find that any measures defining corporate directors' duties should aim at ensuring that executives set up and follow adequate and transparent due diligence processes and procedures, avoiding a one-size-fits-all approach.

"We believe that for long-term success, companies should be encouraged to integrate ESG considerations across all their functions and activities"

As for all other pieces of the sustainable finance agenda, it is important that regulators work to ensure consistency and explore the link with the other components of the EU framework. The sustainable corporate governance initiative complements CSRD by adding specific duties to the upcoming reporting requirements. In addition, the protection of human rights and the pursuit of social objectives are a key component of any new due diligence duties, making this initiative intertwined with the possible development of a social taxonomy and the efforts to identify social objectives, metrics and indicators.

Part 2: State of Play of Sustainable Finance Regulatory Developments in Europe

The aim of this AFME guide is to help members keep track of the main sustainable finance-related regulatory developments within the European Union ("**EU**"), the United Kingdom ("**UK**") and Switzerland (being the jurisdictions whose reforms are handled centrally by many of the AFME member banks).

This part 2 of the report is intended to act as a practical roadmap for AFME members by providing them with a snapshot of the main SF regulatory developments within the EU, the UK and Switzerland, key timelines, the areas of their business that will be directly impacted and the indirect implications for their business (e.g. due to client demand or market expectations). It also includes a timeline highlighting a number of key milestones to assist firms with their planning.

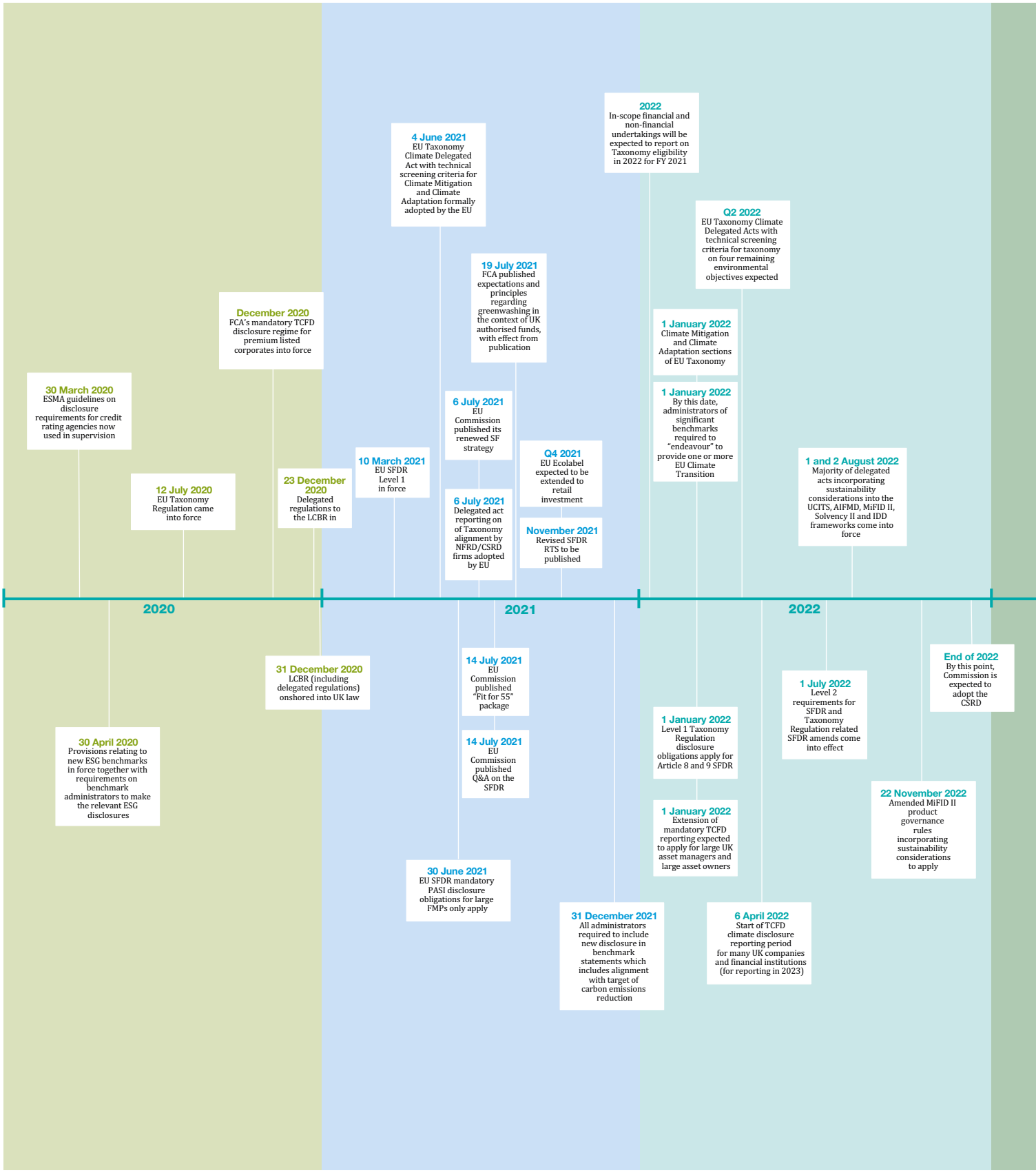
Scope

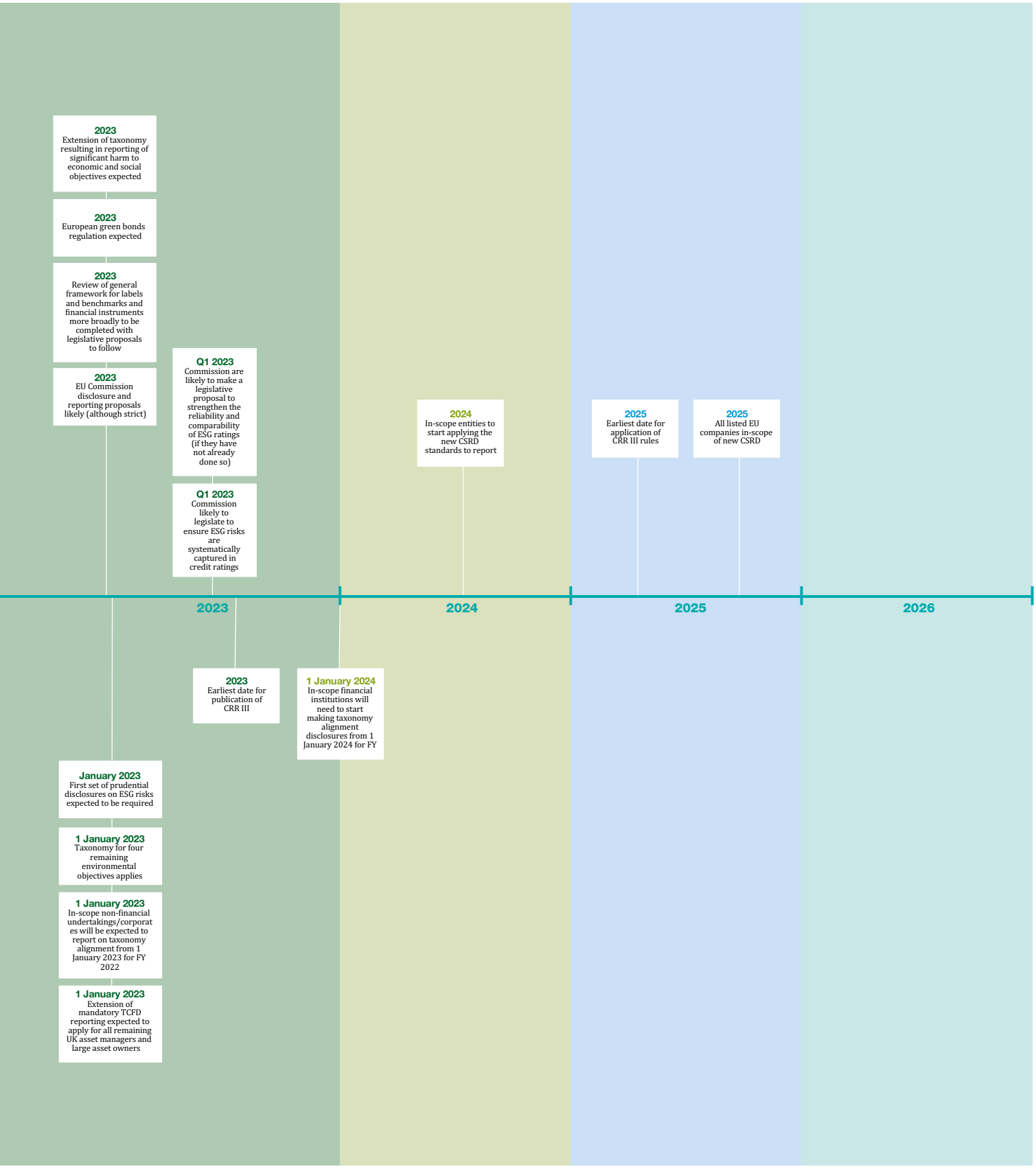
In this guide, we only address developments which are explicitly concerned with sustainable finance. Many areas of regulation, for example the market abuse regime, will be impacted by and adapt to the new products and new risks arising in this area. We do not include these developments but instead limit the scope of this guide to new regimes expressly developed for sustainable finance. Additionally, we do not cover all product-specific developments but rather focus on those developments with a broader application institution-wide (or which span product types).

In terms of geography, as mentioned at the outset, this guide is limited to the umbrella developments occurring in the EU, to the parallel regime developing in the UK, and to developments in Switzerland – these three zones largely representing the common geographies under consideration by AFME members on a centralised basis. Of course, many EU jurisdictions are developing their own supplemental regimes, and you will note French, German and Austrian examples of these are set out in the guide. Depending on the AFME member's footprint, work will need to be undertaken locally to monitor developments in all other relevant jurisdictions to ensure a comprehensive approach to compliance.

"The aim of this AFME guide is to help members keep track of the main sustainable finance-related regulatory developments within the European Union"

Timeline of Sustainable Finance and ESG Matters within the EU and UK




2023
Extension of taxonomy resulting in reporting of significant harm to economic and social objectives expected
2023
European green bonds regulation expected
2023
Review of general framework for labels and benchmarks and financial instruments more broadly to be completed with legislative proposals to follow
2023
EU Commission disclosure and reporting proposals likely (although strict)
Q1 2023
Commission are likely to make a legislative proposal to strengthen the reliability and comparability of ESG ratings (if they have not already done so)
Q1 2023
Commission likely to legislate to ensure ESG risks are systematically captured in credit ratings
2024
In-scope entities to start applying the new CSRD standards to report
2025
Earliest date for application of CRR III rules
2025
All listed EU companies in-scope of new CSRD
2023
2024
2025
2026
2023
Earliest date for publication of CRR III
1 January 2024
In-scope financial institutions will need to start making taxonomy alignment disclosures from 1 January 2024 for FY
January 2023
First set of prudential disclosures on ESG risks expected to be required
1 January 2023
Taxonomy for four remaining environmental objectives applies
1 January 2023
In-scope non-financial undertakings/corporates will be expected to report on taxonomy alignment from 1 January 2023 for FY 2022
1 January 2023
Extension of mandatory TCFD reporting expected to apply for all remaining UK asset managers and large asset owners

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
General		
EU Commission's renewed SF strategy	The Renewed SF Strategy was published on 6 July 2021 and sets out over 50 legislative and non-legislative initiatives to be implemented over the next few years. The paper groups these legislative and non-legislative initiatives under four main headings for action by the EU: i. financing the path to sustainability; ii. inclusiveness; iii. the financial sector's double materiality; and iv. global co-operation. **Note:** the main legislative proposals suggested in the Renewed SF Strategy have been captured in the topic/sector specific rows below.	No immediate actions for members – the Renewed SF Strategy identifies areas in which the EU will be publishing further reforms, which will then result in action points for AFME members.
EU Commission's "Fit for 55" package	On 14 July 2021, the Commission published a package of proposals known as the "Fit for 55" package, which aims to amend EU legislation and policy to ensure that the EU is able to meet its new climate targets – i.e. a 55% reduction in greenhouse gas emissions by 2030 and carbon neutrality (net zero) by 2050. The package of proposals include changes to the EU Emissions Trading System, renewable energy and energy efficiency legislation, as well as creation of a new Carbon Border Adjustment Mechanism ("**CBAM**"), which is effectively a carbon levy that will impact on importers of iron, steel, cement, fertilisers, aluminium and electricity, initially as a reporting obligation from 2023, which will then apply more fully from 2026. Although the package of proposals touches on most areas of the EU economy, there is particular emphasis on decarbonising the power generation, transport and buildings sectors.	Although the "Fit for 55" package is not aimed at sustainable finance specifically, it fleshes out the EU's overall policy and legislative framework for the bloc's transition to net zero and so provides a roadmap of which areas of the economy have significant investment potential and which areas are at higher risk of stranded assets.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The Commission has proposed various deadlines between 2021 and 2023 for itself and other EU bodies to develop its proposed legislative and non-legislative initiatives. Deadlines for specific initiatives to be confirmed in due course.	Proposed legislative and non-legislative initiatives are likely to impact AFME members across their business – the key impacts have been noted in the topic/sector specific rows below.	See previous column.	EU
The package of proposals will now need to be discussed and negotiated by the European Parliament and Council. This is likely to take many months and the fate (and speed) of each proposal is largely independent of the other proposals in the package.	Commodity and emissions trading desks will be directly impacted.	The reforms will impact a number of EU corporates who will likely need assistance from the banking sector for potential restructurings, project financings, etc. –accordingly, there are potential business opportunities for AFME members in this area.	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
UK Green Finance Roadmap	The UK's strategy, 'Greening Finance: A Roadmap to Sustainable Investing', was published by Rishi Sunak (Chancellor of the Exchequer) on 18 October and outlines the legislative and regulatory changes that will be made in the UK, encouraging consumers and investors to make more environmentally positive investment decisions. The roadmap proposes three phases to greening the UK's financial system: • Phase 1: Informing investors and consumers • Phase 2: Acting on the information • Phase 3: Shifting financial flows - As part of Phase 1 of the strategy, the UK Government lays out three key initiatives: • Sustainability Disclosure Requirements ('SDRs') • The UK Green Taxonomy • Setting out the Government's expectations of investor stewardship - In relation to SDRs, the roadmap proposes to build on the UK's implementation of mandatory reporting under the recommendations of the Task Force on Climate-Related Discussions ('TCFD') across the economy by 2025. The proposals require asset managers and owners of investment products to substantiate how ESG-related matters will be accounted for in governance, investment policies and strategies. The SDR will also require disclosure against minimum safeguards which promote sustainable investments. On 3 November, the FCA published a Discussion Paper proposing further detail on the SDR regime (see Disclosures section below). - The UK's Green Taxonomy will set out the criteria that economic activities must satisfy to be considered "environmentally sustainable" and "Taxonomy-aligned". A set of Technical Screening Criteria ('TCS') have been devised to determine whether or not an activity is Taxonomy-aligned. As for investor stewardship, the roadmap acknowledges the progress which has already been made in this area, such as the UK Stewardship Code. The roadmap then sets out a several expectations for the pensions and investment sectors. These include: progressing with work on stewardship within organisations; accounting for information generated by SDR when allocating capital; and being transparent about firms' own and their service providers' engagement and voting, which includes publishing narrative reporting.	TBC in due course. The roadmap will result in legislative and regulatory changes being made in UK. The effect on AFME members will become apparent once these regulatory changes have been implemented.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The roadmap was announced on 18 October by Rishi Sunak. As for the SDRs, the UK Government sets out future plans which will be implemented over 2021 and 2022. As for the UK Green Taxonomy, the TSC will be subject to consultation in the first quarter of 2022, ahead of legislating by the end of 2022. The UK Government will assess the progress of the pensions and investment sectors towards the investor stewardship objectives by the end of 2023.	The roadmap drives investors and consumers to make investment decisions which have more positive environmental impacts. It will also require AFME members to comply with the key initiatives laid out by the roadmap, include the SDRs, UK Green Taxonomy and investor stewardship objectives, as part of Phase 1.	TBC in due course.	UK.

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Taxonomies		
EU Taxonomy Regulation (Level 1)	Establishes the framework for determining whether an economic activity is "**environmentally sustainable**" i.e. if it: (i) contributes substantially to at least one of the six environmental objectives specified in the Taxonomy Regulation; (ii) does not cause significant harm to the other environmental objectives specified; and (iii) is subject to minimum social and labour safeguards set out in international standards. The Taxonomy Regulation also permits certain enabling and transitional activities to qualify as "environmentally sustainable" if the relevant conditions set out in the rules are met. The framework is, and will be, supplemented by delegated acts setting out detailed technical screening criteria ("**TSCs**") for limbs (i) and (ii) based on the sector/industry within which the relevant economic activities operate. So far, only delegated acts with TSCs on climate change adaptation and mitigation have been published. The six environmental objectives are: • climate change adaptation • climate change mitigation • sustainable use and protection of water and marine resources • transition to a circular economy • pollution prevention and control • protection and restoration of biodiversity and ecosystems The Taxonomy Regulation currently: • imposes product level disclosure obligations for financial market participants ("**FMPs**" –- mainly buyside firms) on the extent to which their financial products are Taxonomy-aligned or not – these firms must either disclaim that the products do not consider the Taxonomy or calculate and disclose Taxonomy alignment from 2021; • must be used to support the EU and national green bond frameworks once developed (see below); and • under Article 8, will require disclosures of the Taxonomy eligibility and alignment of their business activities by entities covered by the Non-Financial Reporting Directive ("**NFRD**") i.e. "large public interest entities" – and the definition includes EU listed issuers, EU banks, EU insurers and other entities designated by local Member States to be in scope, provided they have at least 500 employees, B/S of EUR 20 million and net turnover of EUR 40 million, measured on a solo or consolidated group basis in the case of parent undertakings. (**Note:** local EU MS may have gold-plated these requirements, so AFME members should confirm the position locally). In due course, the scope will be expanded to cover a wider range of entities under the proposal for a Corporate Sustainability Reporting Directive ("**CSRD**"), as set out in the CSRD specific row below. A delegated act has been published with more detailed reporting requirements – see Taxonomy Art 8 Delegated Act row below. Please note that "**Taxonomy eligibility**" looks at the extent to which the business of the company is covered by (and is therefore eligible for an assessment under) the technical screening criteria in the delegated acts published under the Taxonomy Regulation. "**Taxonomy alignment**", on the other hand, requires an assessment against the actual technical screening criteria and social/labour safeguards noted above to determine the extent to which the business of the company is Taxonomy compliant/aligned.	AFME members that have EU "large public interest entities" within their group (as measured on a solo or consolidated basis) pursuant to the NFRD must publish disclosures from 2022 on the extent of their (i) Taxonomy eligibility, and (ii) from 2023 (for non-financial services firms)/2024 (for financial services firms) on the extent of their Taxonomy alignment. See Taxonomy Art 8 Delegated Act row below. **Note:** the population of in-scope entities will be expanded under the CSRD proposal and/or may be expanded by local implementation of NFRD (e.g. in Germany, non-EU entities with a German listing are also potentially in scope, if they meet the other public interest entity tests). The SFDR product level disclosure obligations on FMPs regarding Taxonomy alignment must be published from January 2022 – but the detailed Level 2 disclosures have been delayed until 1 July 2022 (see SFDR row below). See green bonds standard row below. Additionally, please note that the Taxonomy is expected to become the dictionary/framework across all EU SF product categorisation and labelling regimes and so will likely give rise to further action points for AFME members.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
In force since 12 July 2020. Detailed TSCs on the environmental objectives will be phased in progressively – with the delegated acts on climate change adaptation/ mitigation taking effect from January 2022, and delegated acts for the other four environmental objectives expected to come into effect from January 2023.	All – in addition to the immediate impacts identified in the "Key actions for AFME members" column, please note that the Taxonomy is expected to become the dictionary/framework across all EU SF product categorisation and labelling regulatory regimes and may well become best practice more broadly.	FMP clients may require AFME members to disclose the extent of their/their product's Taxonomy alignment, in order to comply with their own Taxonomy disclosure obligations. Similarly, large public interest entities in scope of the Article 8 entity level Taxonomy disclosures may expect their clients/ counterparties to disclose Taxonomy eligibility and alignment of their business activities on a trade-by-trade basis and therefore demand this information from AFME members on a trade-by-trade basis.	EU – however, the regime also applies to non-EU AIFMs marketing their funds into Europe under Article 42 of AIFMD.

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
EU Taxonomy Climate Delegated Act	These set out Taxonomy technical screening criteria ("**TSCs**") for climate change mitigation and climate change adaptation (the first two environmental objectives). The Annex to the delegated acts sets out the TSCs which generally consist of quantitative science-based metrics/targets, but in some contexts firms are expected to undertake qualitative assessments as well. Different TSCs are prescribed for different economic activities/industries (on the basis that different sectors/industries are at different stages of transition, and so for some industries relative standards may be more appropriate for now) and NACE (Nomenclature of Economic Activities), which is the European framework for classifying economic activities, is used as the basis to classify different economic activities. What this means from a practical perspective is that when assessing their, or their clients'/counterparties' Taxonomy alignment, AFME members will first need to identify the economic activities that are performed by the relevant entity, map them across to the NACE categories to identify the applicable TSCs in the delegated acts and then assess them against the TSCs. **Note:** the TSCs do not comprehensively cover all possible economic activities and to date TSCs have only been drafted for certain sectors/industries. If a particular economic activity is not covered by the TSCs, then it cannot be assessed to be Taxonomy eligible or aligned for now (even if it is considered to be very green in practice).	See row above
EU Taxonomy Delegated Act re. TSCs for remaining four environmental objectives	These TSCs will prescribe the criteria for determining whether particular economic activities contribute substantially to the four remaining environmental objectives: • sustainable use and protection of water and marine resources; • transition to a circular economy; • pollution prevention and control; and • protection and restoration of biodiversity and ecosystems. These TSCs are expected to follow the same format and approach as the TSCs for climate change adaptation/mitigation summarised in the row above and this was the approach taken by the PSF in its report with suggested TSCs (see "Key milestones" column).	The delegated acts will come into effect from 1 January 2023 – firms required to make disclosures under the Taxonomy Regulation (i.e. large public interest entities under the NFRD, CSRD undertakings and FMPs under SFDR) will likely be expected to update their Taxonomy disclosures to reflect these standards. Timing for that TBC once the delegated acts are published.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The Commission formally adopted the DA on6 July , with a four-month scrutiny period (until 7 November) for Parliament and the Council, capable of extension by an additional two months. This extension has been triggered, meaning that publication of the DA in the OJEU before late December is looking very unlikely. Assuming the DA survives the scrutiny process, the climate TSCs should apply from 1 January 2022.	See row above	See row above	EU
On 3 August 2021, the Platform on Sustainable Finance ("PSF") published a draft report for consultation with preliminary non-binding recommendations on TSCs for these four environmental objectives. The consultation closes on 24 September 2021. The PSF is expected to deliver the final report to the Commission in November 2021, alongside recommendations for the Delegated Act with the TSC for the remaining four environmental objectives under the Taxonomy Regulation. The Commission is to adopt the Delegated Act in spring 2022. They will then come into effect from 1 January 2023 – relevant disclosures (see previous column) will require updating on or before that date.	See row above	See row above	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Development of "significant harm" and "no significant impact" taxonomies	The Platform on Sustainable Finance ("**PSF**") is tasked with advising the Commission on extending the scope of the Taxonomy Regulation to cover economic activities that significantly harm environmental sustainability. On 12 July 2021, the PSF published a draft report for consultation on options to extend the taxonomy with respect to environmental objectives. The focus is on supporting the net zero transition and the draft report proposes a traffic light system with three levels: • Significant Contribution (green); • Intermediate Contribution (amber); and • Significant Harm (red). The report also talks about introducing a fourth category of no significant impact ("**NSI**") sectors that have very little impact on the environment (positive or negative) e.g. hairdressers, creches, tax advisers or lawyers. These are quite significant proposals, as currently Taxonomy compliance is optional in the sense that firms can choose to say that they do not consider the Taxonomy in their business and disclose 0% alignment. However, the expectation seems to be that going forward all economic activities will need to be assessed against and reported as falling within one of the four categories above. At present, the existing Taxonomy (see above) is designed to only cover activities that make a "significant contribution" to one of the six environmental objectives whilst also doing "no significant harm" to the other environmental objectives and complying with the minimum social/labour safeguards summarised above. However, the PSF has stated that there is a "*high risk of misinterpretation and misunderstanding*" of the "intermediate performance" space between significant contribution and harm – as activities unable to meet the strict Taxonomy standards for green activities may be mistakenly considered by some users as environmentally "unsustainable". The PSF is therefore proposing the new traffic light classification system to capture the breadth of different economic activities. The expectation is that the "intermediate" and "NSI" labels will provide a positive label for market players to move activities out of the "red" significant harm category (as under the current Taxonomy, significant harm, intermediate and NSI activities are effectively all lumped together as "not green"). In addition, the PSF has put forward the following key recommendations for consultation: • identifying further economic activities for which no technological possibility of improving their environmental performance to avoid significant harm exists, with respect to all six environmental objectives – as currently only power generation activity using solid fossil fuels have been identified as such in Article 19(3) of the Taxonomy Regulation; • the Commission should carry out an in-depth materiality analysis at NACE-4 level to identify all activities not yet covered or not planned to be covered by delegated acts as a basis for developing a list of NSI activities; and • creating a reporting requirement for companies to participate in a labelling/certification process that ensures minimum environmental performance as a prerequisite to reporting any activities as NSI.	As the proposal is still under development, it is unclear as to exactly what compliance changes will be required. However, it seems likely that these changes will require reporting/disclosures by NFRD/CSRD in-scope entities (at an entity level) and by FMPs (with respect to their SFDR financial products) on the extent of their investment in "significant harm" activities, and also to convert their Taxonomy alignment disclosures required under the rows above to ones which require disclosure on the breakdown between "substantially contributing", "intermediate", "substantially harming" or NSI activities. As noted above, because the Taxonomy Regulation is expected to become the dictionary/framework across all EU SF product categorisation and labelling regimes in due course, there will likely be further actions for AFME members.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
12 July: PSF published draft report and start of the public consultation 27 August: public consultation closes 20 October: PSF was expected to deliver final reports to the Commission following consultation, however these have been delayed and are expected imminently. By 31 December 2021: Commission to publish report on the extension of the scope of the Taxonomy 2022: work to implement the extension of the Taxonomy 2023: significant harm taxonomy reporting likely to commence	See row above	See row above	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Development of "social" taxonomy	The PSF is also tasked with advising the Commission on extending the scope of the Taxonomy Regulation to social objectives and published a draft report on 12 July with its recommendations. The social taxonomy is intended to identify projects that make a "substantial contribution" and that cause "significant harm" to social objectives, mirroring the approach of the existing environmental Taxonomy. The current proposal, however, is that the technical screening criteria will be based on international authoritative standards, and, unlike the environmental Taxonomy (which applies at an economic "activity" level), are expected to cover largely "entity" level criteria with potentially some economic "activity" level criteria. In its draft report, the PSF suggests that the social taxonomy should be structured both vertically (activities making relevant products and services accessible while doing no harm to other social objectives) and horizontally (corporate governance, impacts on different groups of stakeholders affected by economic activities, taxation, bribery, lobbying). The PSF report aims to distinguish activities that are inherently socially beneficial (job creation) and those with added social benefits (ensuring decent jobs), and to include minimum environmental safeguards. The PSF has proposed three major social objectives, as well as some sub-objectives related to corporate governance: **Vertical (activities-based) objectives** 1: Improving accessibility of products and services for basic human needs such as: • Water, including waste-water management • Food • Housing • Healthcare, including care work • Education (including vocational training) 2: Improving accessibility to basic economic infrastructure, including (examples, not exhaustive): • Transport • Telecommunications and internet • Clean electricity • Financial inclusion • Waste management **Horizontal (products and processes-based) objectives** 3: Promoting positive impacts and avoiding and addressing negative impacts on affected stakeholder groups: • Ensuring decent work • Promoting consumer interests • Enabling inclusive and sustainable communities **Governance** • Good sustainable corporate governance • Transparent and non-aggressive tax planning	As the proposal is still in development, it is unclear as to exactly what compliance changes will be required. However, it seems likely that these changes will require further reporting/disclosures by entities in scope of the Taxonomy disclosures summarised in the rows above (i.e. NFRD/CSRD in-scope entities and FMPs with respect to their SFDR financial products) on the extent of their alignment with the Social Taxonomy. As with the environmental Taxonomy, the Social Taxonomy is expected to become the dictionary/framework across all EU SF product categorisation and labelling regimes with a social dimension and so in due course, there will likely be further actions for AFME members.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
12 July: PSF publishes draft report and public consultation starts 27 August: public consultation closes 20 October: PSF was expected to deliver final reports to the Commission following consultation, however these have been delayed and are expected imminently. By 31 December 2021: Commission to publish report on the Social Taxonomy 2022: work to implement the extension of the Taxonomy 2023: reporting on Social Taxonomy likely to commence	See row above	See row above	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Taxonomy Art 8 Delegated Act – reporting of Taxonomy alignment by NFRD/CSRD firms	As noted in the Taxonomy Regulation row above, Article 8 of the Taxonomy Regulation requires large public interest undertakings covered by the NFRD (and, subsequently, the CSRD) to publish information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. On 6 July, the European Commission adopted a delegated act setting out the content, methodology and presentation of the KPIs that non-financial (i.e. unregulated corporates) and financial (i.e. banks, insurers, etc.) undertakings are required to disclose under Article 8 of the Taxonomy Regulation. Non-financial undertakings must report on the Taxonomy "eligibility" and "alignment" of their business activities based on the proportion of their: (i) turnover; (ii) capital expenditure; or (iii) operating expenditure related to Taxonomy-aligned business activities.[24] The metrics for financial undertakings are more complex – the starting point is that the Taxonomy eligibility/alignment of financial services firms should be determined by reference to the Taxonomy alignment/eligibility of their client base (i.e. how much revenue a bank makes, or how many balance sheet exposures it has to Taxonomy eligible/aligned corporates vs. not). The metrics also vary depending on the kind of financial services firms and some must be calculated and disclosed at both entity and consolidated group level. In summary for: **Banks** – the main metric is the green asset ratio ("**GAR**"), i.e. balance sheet exposures (e.g. loans and advances, Treasury holdings, but excluding trading portfolio) to Taxonomy aligned/eligible corporates vs. not. There are also secondary KPIs which apply to other business activities such as brokerage (fees and commission-based KPIs) and asset management (AUM green ratio). **Asset Managers** – AUM green ratio i.e. weighted average of investments in Taxonomy-aligned economic activities vs. total AUM. **Investment firms** – GAR for dealing on own account activities (i.e. assets associated with Taxonomy-aligned economic activities vs. total assets) and fees and commissions KPI for other MiFID investment services provided (i.e. revenue from services associated with Taxonomy-aligned activities of clients vs. total revenue). **Insurers** – different KPIs apply for investment activities (weighted average of investments that are directed at funding or associated with Taxonomy-aligned economic activities) and underwriting activities (gross premiums written or reinsurance revenue corresponding to Taxonomy-aligned insurance or reinsurance activities).	Any financial services firms that are large public interest entities within your group (as calculated on a solo or consolidated basis, see above) must: from 2022, for FY 2021 (and then annually thereafter) – start disclosing Taxonomy eligibility figures against applicable KPIs, by reference to the business activities of their client base, as assessed against the Taxonomy TSCs, using the EU's NACE classification system; and from 2024, for FY 2023 (and then annually thereafter) – start disclosing Taxonomy alignment figures against applicable KPIs, by taking account of Taxonomy alignment disclosures that will be published by NFRD corporate clients in 2023 (for FY 2022), as non-financial undertakings will be operating on an earlier alignment reporting cycle. In theory, AFME members should be able to rely on public disclosures from their NFRD client base, but there will, however, still be data gaps/ challenges – e.g. alignment data from NFRD financial services undertakings will likely not be available for the first report due in 2024 (for FY 2023) as they will be operating on the same reporting cycle. Therefore, in scope AFME members will likely need to implement complex reporting and data capture systems and processes to calculate Taxonomy eligibility and alignment of their client base across different business lines, noting also the upcoming expansions to the Taxonomy Regulation covered in the rows above, such as the Social Taxonomy. **Note**: local Member State implementations of NFRD may mean that reporting start dates are different to the ones noted above (e.g. this is the case in Germany) – firms should therefore check the position with local counsel. Additionally, as noted above and in the CSRD row below, the population of entities in scope of these reporting requirements will be expanded by the CSRD and/or may vary due to local Member State implementations of NFRD or CSRD.
Development of UK Taxonomy	The Green Technical Advisory Group GTAG has been established and mandated to advise the UK Government on how to adapt the EU Taxonomy for UK purposes (June 2021). The UK's strategy, 'Greening Finance: A Roadmap to Sustainable Investing' sets out the objectives and approach of the UK's Green Taxonomy, and it is notable that in principle the approach will be the same as the EU's for Taxonomy-alignment. As with the EU Taxonomy, the climate change mitigation and adaptation objectives will be implemented first, with the TSCs subject to consultation in Q1 2022 ahead of legislation by the end of 2022. In terms of process, the roadmap highlights that TSCs will be subject to public consultation and then made through statutory instruments, with regulatory guidance and presentational tools intended to increase the ease of application. Unlike the EU Taxonomy, the UK has committed to its Taxonomy disclosures being implemented for corporates before those for investment products, so that the former can feed into the latter.	The compliance implications for firms are unclear at this stage – however, we expect the key actions to be broadly similar to those under the EU regime, that is, the UK Taxonomy will be used to supplement a UK green bonds standard, a UK "sustainable investments" framework, and potentially, entity level disclosures by UK corporates and financial services firms, similar to the Article 8 Taxonomy regime for large EU public interest entities.

24 Please see EU Taxonomy Regulation row above for a summary of the differences between "eligibility" and "alignment" reporting.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The delegated act was adopted on 6 July by the Commission and is now subject to a four-month scrutiny period (which can be extended by a further two months) by the European Parliament and Council. If no objections are raised, the Delegated Act will be published in the Official Journal and enter into force 20 days after that. In-scope financial and non-financial undertakings will be expected to report on Taxonomy eligibility in 2022 for FY 2021. In-scope non-financial undertakings/corporates will be expected to report on taxonomy alignment from 1 January 2023 for FY 2022. In-scope financial institutions will need to start making taxonomy alignment disclosures from 1 January 2024 for FY 2023. Credit institutions also do not have to disclose against the fees and commission KPI until 1 January 2026 (for FY 2025).	Corporate reporting/disclosure teams will need to ensure that the relevant reports are prepared and published for NFRD (and later, CSRD) in-scope entities within the group. As noted in the previous column, firms will need to implement complex data capture and reporting processes (which should be mindful of future expansions to the Taxonomy). In due course it may become market practice for counterparties/clients to be contractually required to disclose Taxonomy eligibility and alignment scores at the entity or project level (in the case of project-specific transactions) to enable financial services firms to accurately calibrate their Taxonomy alignment/eligibility scores. The overall impact will also vary depending on the approach AFME members wish to take towards these disclosures – those that wish to aim for a high Taxonomy alignment score will need to ensure that their services are focused on Taxonomy-aligned corporates.	Clients will likely have regard to the Taxonomy alignment scores of their in-scope financial services firms – for the purposes of meeting their own mandatory disclosure obligations and also potentially because of commercial/client/market expectations to have a "greener" supply chain. There will also be potential reputational implications as disclosing firms with low Taxonomy alignment scores could be challenged on their broader sustainability practices/commitments.	EU
Legislative measures expected by the end of 2022.	TBC in due course.	TBC in due course.	UK

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Disclosure and reporting		
EU Sustainable Finance Disclosure Regulation ("EU SFDR")	The **EU SFDR (Level 1)** regime requires: • Financial market participants, "**FMPs**" (broadly speaking EU buyside firms such as fund managers, firms conducting MiFID investment management activities, pension schemes and insurers) and financial advisers (i.e. firms that conduct MiFID investment advisory activities or which advise on IBIPs) must publicly disclose how they integrate sustainability risks within their investment management/advisory services and in their remuneration policies and procedures. • Such firms are also required to publicly disclose how they assess the principal adverse sustainability impacts ("**PASI**") of their investment management/ advisory activities on the environment, society, etc. on a comply or explain basis – however, this PASI disclosure is mandatory for large FMPs (i.e. those that have 500 employees on a solo or, in the case of parent undertaking FMPs, consolidated balance sheet basis). These are entity level, rather than product level disclosures. - FMPs that choose to comply, or are mandatorily required to comply with these PASI disclosure obligations must also annually report on the extent to which their activities (at an entity level) have resulted in or financed PASIs (e.g. fund managers must disclose overall Scope 1 and 2 emissions for all the investments that they manage and make during the annual reporting period). The reporting template is set out in the SFDR Level 2 rules and there is a prescribed list of mandatory and voluntary PASI indicators that firms should consider and report against (e.g. Scope 1 and 2 emissions, board gender diversity and others). - The PASI disclosure obligations on financial advisers do not require them to annually report in the same way, but rather they must explain ex ante how they consider the PASIs of financial products they advise on. • FMPs are also required to classify their products based on their green ambitions, and then comply with disclosure and product eligibility requirements that flow from the categorisation. The product categories include: - Article 9 products – these are products that have a "sustainable investment objective" and which are expected to exclusively target "sustainable investments" (these are investments that do an environmental or social good, have good governance and, notably, have been assessed to "do no significant harm" to any other environmental or social objective – this "**DNSH**" test is meant to be assessed in practice by reference to the PASI indicators noted above. - Article 8 products – these are products that promote environmental or social characteristics through their product design, marketing materials, investment strategy, etc. This is a broad catch-all category that is intended to capture any products that claim to take ESG considerations into account when making investment decisions. Such products must have at least an environmental or social good, and the investee companies must follow good governance practices. - Article 6 products – these are products that do not make any environmental or social commitments or promises; these products must still consider sustainability risks (as should all Article 8 and 9 products) or explain why they are not relevant. • Detailed product level disclosure and reporting requirements attach to Article 8 and 9 products to ensure that investors have clear information on the ESG commitments made by such products and the extent to which they are met on an ongoing basis.	AFME members with EU entities that provide investment advice on MiFID financial instruments or IBIPs will be directly impacted and must ensure that they have published the entity level sustainability risk and PASI disclosures on their websites. If AFME members or their affiliates conduct investment management activities or issue investment products in-scope of the regime (e.g. funds, IBIPs, etc.), they must also comply with the SFDR reporting and disclosure obligations at both an entity and product level. The detailed Level 2 standards have been delayed until 1 July 2022 (see previous and next columns), so further uplifts will be required in advance of that date, once we have the final SFDR RTS.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
EU SFDR Level 1 has been in force since 10 March 2021 (however, the mandatory PASI disclosure obligations for large FMPs have only applied from 30 June 2021). October 2021: publication of revised SFDR RTS on the presentation of Taxonomy-related disclosures. Commission aims to adopt the RTS by end-of-2021. 1 January 2022: Level 1 Taxonomy Regulation disclosure obligations apply for Article 8 and 9 SFDR products. 1 July 2022: Level 2 requirements for SFDR and Taxonomy Regulation-related SFDR amends come into effect (following recent delay).	Investment advisory businesses. Asset and wealth management businesses will also be directly impacted.	These reforms are likely to result in buyside firms demanding ESG disclosures and information from broker-dealers/banks on their products (e.g. debt instruments, derivatives, securitisations, etc.), entities, etc. so that the buyside firms can comply with their entity and product level SFDR obligations (in particular the PASI reporting obligation). The SFDR rules will also result in increased buyside demand for green products.	EU – however, the regime also applies to non-EU AIFMs marketing their funds into Europe under Article 42 of AIFMD.

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
EU Sustainable Finance Disclosure Regulation ("EU SFDR")	**Supporting materials** • Final Report on draft Regulatory Technical Standards (22 Oct 2021) ("**SFDR RTS**"): this sets out the Level 2 provisions supplementing the EU SFDR Level 1, including detailed requirements on disclosure templates that must be completed. These provisions were expected to come into force on 1 January 2021, but the EU authorities have failed to reach agreement on the text and their application has now been delayed to July 2022 (see Commission letter here). • Joint ESA Supervisory Statement on the application of the Sustainable Finance Disclosure Regulation: This statement clarifies how the EU SFDR Level 1 rules will apply in the absence of the Level 2 provisions. The statement recommends that firms follow the draft SFDR RTS as a guide in the interim. • Joint Consultation Paper on Taxonomy-related sustainability disclosures (15 March 2021): This consultation paper sets out detailed Level 2 proposals and templates for embedding Taxonomy disclosures in the SFDR disclosures, in particular the Article 8 and 9 product-level reports. The back end of the consultation paper includes a consolidated version of the SFDR RTS with all the Level 2 changes in one place. • Commission Decision on the adoption of the answers to be provided to questions submitted by the ESAs (the "**Commission Q&A**"): The Commission Q&A sets out responses to certain questions from the ESAs on the scope and application of SFDR. The Commission Q&A addresses various topics, including: - application of SFDR to registered (sub-threshold) AIFMs and non-EU AIFMs; - PASI disclosure requirements; - design and minimum criteria for Article 8/9 SFDR products; - promotion of environmental or social characteristics under Article 8; - the interaction between Article 9 products and LCBR benchmarks; and - website disclosures for separate accounts. As part of its Renewed SF Strategy, the Commission has noted that it is considering: • a proposal for minimum sustainability requirements for financial products under Art 8 SFDR in order to guarantee minimum sustainability performance. The timeline for this assessment has not been confirmed; and • proposals to further build on the SFDR RTS to: (i) strengthen the disclosure and effectiveness of decarbonisation by financial market participants for all financial products; and (ii) further clarify PASI indicators for both environmental and social matters.	

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
UK FCA Discussion Paper proposing UK Sustainability Disclosure Requirements regime	The discussion paper proposes a product classification, labelling and disclosure regime, which has similar aims to the SFDR but differs substantially from the EU rules as it looks to build on the FCA's TCFD and international standards (e.g. IFRS and IOSCO standards). **Scope –** the SDRs capture the majority of UK asset managers and asset owners and their products (regardless of whether they have ESG aims or not). However the FCA has asked whether certain types of products should be excluded from the labelling regime – e.g. separate accounts or more broadly, products that are not targeted at retail investors. The FCA is exploring what rules should be introduced for UK financial advisors. **Application to overseas funds -** the FCA has noted that it is considering how overseas funds marketing into the UK should be treated under the SDR, including funds that access the UK under the upcoming Overseas Funds Regime. **Three tiered product labelling and disclosure regime -** the proposals can be summarised as having 3 main tiers: • **Product labels** – 5 products labels are proposed with different eligibility criteria, ranging from "Sustainable – impact" (most like an Article 9 SFDR product) to "not promoted as sustainable" (most like an Article 6 product). • **Consumer-facing disclosures (product level)** – i.e. a brief ESG key facts document similar to the website summary that firms need to prepare for SFDR website product disclosures. This should cover items such as the product's FCA label, ESG objectives, investment strategy pursued, asset allocation to ESG vs. non-ESG investments; approach to stewardship and wider ESG performance metrics. **Note:** the FCA is also considering whether to set a baseline set of ESG metrics for all products to enable consumers to understand the ESG performance of their investments over time – it seems like the E metrics in the TCFD reforms would be used as the base, supplemented by additional baseline S and G metrics. • **Detailed disclosures aimed at institutional investors (product and entity level)**: although expressed as being aimed at institutional investors, we assume the idea is that they will be made available to all investors: - **product level:** these will be an extension of the brief consumer facing product disclosures noted above, and will require detailed disclosure on data sources, data limitations, methodologies used to measure impact, supporting contextual and historical information, further information about UK Taxonomy alignment and information about benchmarking and performance. Without giving much detail on how, the FCA has stated that the SFDR principal adverse impact indicators could be used as a starting point. - **entity level:** the FCA intends for the entity level disclosures to be an expansion of the entity level TCFD reports – i.e. to cover ESG metrics beyond climate (i.e. what is the firm's ESG strategy, governance etc. more broadly).	TBC whilst scope of regime is being agreed. However, on the basis of current proposals – if AFME members or their affiliates conduct investment management activities or issue investment products in-scope of the regime, they must also comply with the SDR labelling and disclosure requirements.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The discussion paper is open for comment until 7 January 2022. The FCA plans to publish a consultation paper in Q2 2022 with detailed rules for further consultation.	Asset and wealth management. Investment advisory businesses.	These reforms are likely to result in buyside firms requesting ESG disclosures and information from broker-dealers/banks on their products	UK

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
FCA's anti-greenwashing principles	On 19 July 2021, the FCA published a letter to the chairs of UK authorised fund managers ("**AFMs**") setting out its expectations and principles regarding greenwashing in the context of UK authorised funds. The principles build on existing FCA rules that apply to AFMs (in particular the obligations to make fair, clear and not misleading communications) and are intended to be complementary to the EU's SFDR requirements. The principles are presented as "guiding" principles, but do prescribe strict requirements in certain areas (e.g. fund names) and are quite similar to the AMF's French doctrine for significantly engaging funds (albeit the UK reforms are a lot less prescriptive overall). The principles also echo the overall SFDR framework as AFMs are expected to: (i) have clear and accessible pre-contractual ESG disclosures; (ii) report on the attainment of ESG objectives and characteristics; and (iii) ensure that product marketing/labelling is proportionate to the materiality of ESG considerations in the management of the fund. The principles are also expected to form the basis for the UK version of SFDR.	No direct impacts, as we expect AFME members will not be UK authorised fund managers – but they may have affiliates that fall within that category.
Swiss prospective law/ amendments on sustainable finance including to prevent greenwashing	The Swiss government is taking preliminary steps towards a possible law regarding sustainable finance, or possible amendments to the current financial market laws. The Federal Council had published a report in June 2020 analysing the current situation and announcing future reforms. As a result, the Federal Council instructed the State Secretariat for International Finance ("**SIF**"), in cooperation with the Financial Market Supervisory Authority ("**FINMA**") and the Federal Office for the Environment and the Federal Office of the Energy, to follow regulatory developments in the EU regarding sustainable finance (namely the EU taxonomy), as well as ongoing actions in the industry regarding the avoidance of greenwashing. The SIF is expected to evaluate whether there is a need to adjust Swiss financial market laws and submit proposals to the Federal Council by the end of 2021. The key policy objectives are: (1) to preserve the exportability of Swiss financial products, (2) position Switzerland as a leading sustainable finance hub and (3) prevent greenwashing. On November 3, 2021, FINMA published its Guidance 05/2021 - Preventing and combating greenwashing, introducing transparency and reporting rules at the fund-level for Swiss funds, as well as organizational requirements for investment managers of Swiss and foreign funds. These rules concern sustainability-related products, i.e., products which (i) refer to sustainability in their name (e.g., sustainable, green, ESG, environment-friendly), (ii) are described as sustainability-related in the product documentation, or (iii) otherwise provide for a link to sustainability, typically through advertisement. FINMA did not include binding rules for sustainability preferences yet at the point of sale, pending the Swiss Federal Council's report by year-end 2021.	Not defined yet.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The principles take effect from the date of publication of the letter (i.e. as of 19 July 2021).	No direct impacts	These reforms are likely to result in buyside firms demanding ESG disclosures and information from broker-dealers/banks on their products (e.g. debt instruments, derivatives, securitisations. etc.), entities. etc. so that the buyside firms can comply with these principles at a product level. The principles will also likely result in increased buyside demand for green products. AFME members may be indirectly impacted when distributing UK authorised funds as the AFMs of such products may look to impose strict guidelines on how they are marketed from an ESG perspective to avoid triggering these requirements.	UK
Report of the SIF to the Federal Council by the end of 2021 (most likely in November). FINMA's guidance on preventing and combating greenwashing was published on 3 November 2021.	Not defined yet.	Not defined yet.	Switzerland

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Mandatory TCFD disclosures by UK firms	The UK government has announced that it plans to roll out mandatory TCFD reporting across the economy by 2025, with most of the measures expected to be introduced by 2023. Accordingly, the FCA has published proposals to require mandatory TCFD disclosures by: • premium listed commercial companies – by introducing a new Listing Rule (which is now in effect) that applies on a "comply or explain" basis, to financial years beginning on or after 1 January 2021; • standard listed commercial companies – by extending the aforementioned rule to apply for financial years beginning on or after 1 January 2022. The FCA is currently consulting on this regime – feedback is due by 10 September 2021 with a policy statement likely expected in Q4 of 2021; and • UK asset managers, life insurers and FCA-regulated pension providers – see UK TCFD reforms for asset managers row below. These reforms are being consulted on currently. The FCA has set out more on its disclosure expectations in its Primary Markets Bulletin 36. The bulletin includes details on the FCA's supervisory strategy in this space, on the thematic work, collaborating with the Financial Reporting Council, that it intends to carry out, and on how instances of non-compliance will be handled. The DWP (Department for Work and Pensions) is introducing similar TCFD reporting obligations for UK occupational pension schemes.	AFME members with UK entities will be subject to mandatory TCFD reporting at an entity level at some point between 2022 and 2025.
New UK TCFD disclosure rules for UK listed companies and some financial institutions	At the end of October 2021, the UK Government announced amendments to the Companies Act 2006 to require the disclosure of climate-related financial information by UK registered companies and financial institutions. This includes information on their governance and management of climate-related risks and opportunities, as well as analysis of their business' resilience to climate related scenarios. These new obligations are based on TCFD recommendations and apply in respect of financial years starting 6 April 2022 onwards. This is separate to the FCA's rules for premium listed companies, standard listed companies and asset managers described in the item above. Although there is overlap in scope, the inclusion of climate-related reporting within the statutory framework (as opposed to the regulatory framework) is important because it means that directors will need to take responsibility for the completeness and accuracy of the company's disclosures.	AFME members will need to check which of their legal entities fall within scope of the new reporting requirement: The rules require that climate-related information be provided by those companies which already have to publish a non-financial information statement in their strategic report – that is, traded companies, and certain financial institutions, in each case if they have more than 500 employees. In addition, the new climate disclosure requirements will apply to Alternative Investment Market traded companies and UK companies with a group turnover of more than £500 million, in each case if they have more than 500 employees. LLPs of comparable size will be subject to equivalent provisions.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
2022 to 2025	All, as these disclosures must be made at an entity level, covering all the business lines of the large institution. Corporate reporting/disclosure teams will need to ensure that the relevant disclosures are prepared and published. To the extent AFME members have UK affiliates that are in-scope, and the group publishes voluntary group level TCFD disclosures today, those disclosures will need to be uplifted accordingly with respect to the in-scope affiliate.	ECM/DCM teams may also be indirectly impacted because of the impact of these reforms on UK listed issuers.	UK
The reporting obligations apply in respect of financial year starting 6 April 2022, for reporting in 2023.	All – this is an entity level disclosure obligation.		UK

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
UK TCFD reforms for asset managers	On 22 June 2021, the FCA published a consultation paper with proposals to extend mandatory TCFD reporting to asset managers, life insurers and FCA-regulated pension providers, as part of the UK's ambition to have fully phased-in TCFD reporting by 2025. Under the FCA's proposals, most UK asset managers (i.e. UK MiFID managers, AIFMs and UCITS ManCos) and asset owners (i.e. life insurers and FCA regulated pension providers) will be expected to annually report on TCFD compliance at both an entity and at a product level. Key points to note include: • the product level reporting requirements are a recent development that had not been previously suggested in the government's TCFD roadmap, and follow similar metrics to the climate principal adverse indicators in SFDR – although unhelpfully, the FCA's proposed calculation methodologies differ in some regard such that firms will need to prepare separate SFDR and FCA product level disclosures; and • the entity level report must include a compliance statement, signed by a member of senior management. The FCA is proposing that the rules should not apply to: • FCA-regulated asset managers and asset owners that have less than £5 billion in assets under management or administration (calculated on a three-year rolling average basis); and • overseas firms accessing the UK under the temporary permissions regime (TPR).	No direct impacts unless AFME members provide investment management services or have affiliates that are in scope of the regime.
Switzerland – TCFD implementation	The Federal Department of Finance ("**FDF**") is preparing a consultation draft regarding the Task Force on Climate-related Financial Disclosures (TCFD). The key parameters are the following: • Public companies, banks and insurance companies with 500 or more employees, total assets of more than CHF 20 million or a turnover of more than CHF 40 million will be required to publish on climate issues. On the one hand, this report will include the financial risk that a company incurs due to its climate-related activities. On the other hand, it shows the effects of the company's business activity on the climate or the environment. This "double materiality" is expected to be aligned with the approach adopted by the EU. The definition of minimum requirements aims at ensuring that the information provided is meaningful, comparable and, where possible, forward-looking and scenario-based. These amendments are partially related to the amendment described below under "Switzerland – Non financial disclosures".	TCFD Disclosures – scope not defined yet.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
Feedback on the consultation paper is due by 10 September 2021 with a policy statement likely expected in Q4 of 2021. The regime is expected to apply from: 1 January 2022 for large UK asset managers (i.e. enhanced SMCR firms that have AUM of more than 50 billion) and large asset owners (i.e. FCA-regulated life insurers and pension providers that have £25 billion or more assets under management/administration) – with the first annual report due by 30 June 2023; 1 January 2023 for all other UK asset managers and asset owners that are not excluded under the £5 billion threshold – with the first annual report due by 30 June 2024.	No direct impacts unless AFME members provide investment management services.	As above – to the extent AFME members have UK affiliates that are in-scope, and the group publishes voluntary group level TCFD disclosures today, those disclosures will need to be uplifted accordingly with respect to the in-scope affiliate.	UK
Preparation of the consultation draft by summer 2022. Implementation is expected to take place from 2024 for the financial year 2023.	Disclosure obligations and increased transparency.	Not defined yet.	Switzerland

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
French AMF ESG Doctrine	The AMF a Position-Recommendation 2020-03 on "information to be provided by collective investment schemes incorporating non-financial approaches" in March 2020 (with an update published in July 2020) – the "**Position Paper**". The Position Paper applies as follows: • Impacted firms: asset management companies and distributors of the products described below. • Impacted fund materials: impacts the name of the fund, KIID and prospectus, as well as marketing materials (which would capture any promotional documents). • Level of disclosures: applies at a product level only, but there are some entity level disclosures for French AIFMs and UCITS Mancos. • Scope of products: applies to French AIFs and UCITS (subject to some exemptions), as well as non-French UCITS, that are authorised to be marketed in France to retail investors. Fund managers that market their funds into France are, strictly speaking, in scope, but in certain cases, instead of complying with these requirements, they can include prominent disclaimers flagging that their products do not comply with the AMF's Position Paper. Funds with ESG ambitions that are marketed in France should be categorised as either adopting a "significantly engaging" or "non-significantly engaging" ESG methodology: • only funds implementing a significant engagement methodology are entitled to disclose ESG objectives as a "key"/"central" aspect of communications in their documentation; and • only funds implementing a non-significant engagement methodology are entitled to disclose ESG objectives as a "reduced"/"limited" aspect of communications in their documentation. The Position Paper sets out minimum standards and eligibility criteria for each category as well, to ensure that the methodology applied by the fund manager is in fact significantly or non-significantly engaging when it comes to ESG. Other funds (i.e. that do not consider ESG in a "significantly engaging" or "non-significantly engaging" manner) are not permitted to reference ESG in their marketing materials, other than in their prospectus in a proportionate way. Funds with an approach that does not meet central or limited communication standards (i.e. implementing a significant or non-significant engagement methodology) are not entitled to communicate on non-financial characteristics (e.g. in the name of the fund, KIID and /or marketing materials), save in their Prospectus and in a proportionate way. **Interplay with SFDR:** The AMF's regime and the Position Paper were introduced before SFDR. The AMF published an update in January 2021, explaining how the AMF doctrine will work alongside the SFDR. At a high level, the AMF has confirmed that, in its view, the AMF doctrine and SFDR are complementary to one another and that it will revise its doctrine to converge with the EU SFDR requirements and guidance in due time – this update is still expected.	AFME members will be directly impacted if they market funds in France.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The regime has been in force since March 2020, although a further update regarding SFDR is expected (see Column 2).	Teams that distribute funds into France – or (which we expect will be less relevant) asset management teams that manufacture funds for sale into France.	French fund managers and other managers that are in scope of these rules will likely demand enhanced ESG disclosures and information from broker-dealers/banks on their products (e.g. debt instruments, derivatives, securitisations, etc.), entities, etc. so that they can comply with the AMF's strict eligibility requirements for "significantly engaging" or "non-significantly engaging" funds. AFME members may also be further impacted when distributing funds into France – as the managers of such products may look to impose strict guidelines on how they are marketed from an ESG perspective to avoid triggering these requirements.	France – the regime also applies to overseas funds marketed in France.

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
BaFin Consultation on Guideline for Sustainable Investment Funds	On 2 August 2021, BaFin published draft guidelines for sustainable investment funds as part of a public consultation process. The guidelines set out how certain German investment funds must be structured so that they qualify as "sustainable" or can be marketed as "sustainable" in Germany. This is a domestic regime that is being proposed under section 4(2) of the German Capital Investment Code (KAGB), which enables BaFin to set standards for certain fund categories to supplement and clarify the legal requirements for such fund categories, as well as to ensure that such categorisations are not misleading. BaFin emphasises that the guidelines shall not affect the European legal framework, i.e. SFDR and the Taxonomy Regulation, and points out that these instruments focus on disclosure and transparency regarding the integration of sustainability risks and adverse sustainability impacts, as well as sustainable investment objectives, but do not include further quantitative or qualitative standards. To fill this gap, BaFin's guideline regulates the use of designations which indicate that a product is "sustainable" and create requirements for such product's investment terms (Anlagebedingungen). If the EU Ecolabel is expanded in the future to also include investment funds, BaFin will adapt its guideline accordingly. **Product scope:** • The guidance relates to investment funds whose name includes a reference to sustainability (e.g. "ESG", "green", "sustainable") or which are explicitly marketed as "sustainable" in the prospectus or other marketing materials and includes the following three options how the investment terms of such investment funds need to be drafted. • Such products must have a fixed quota of at least 75% sustainable investments within their portfolio (as such term is defined in the SFDR). Compared to a previous informal draft of the guideline, BaFin has lowered this threshold from 90% to 75%. Additionally, requirements must also be complied with, including exclusions for: - energy production from fossil fuels (excluding gas) or nuclear power exceeding 10% of their total revenue; - exploration for or extraction of oil or coal exceeding 5% of their total revenue; and - extraction of and services for oil sands and oil shale. • If no fixed quota of sustainable investments is included as an investment limit, an investment fund can also qualify as a sustainable investment fund if it pursues a sustainable investment strategy, for example by following a "best-in-class strategy" or by providing that at least 75% of the assets are selected based on sustainability criteria (without such assets having to qualify as sustainable investments) and that such sustainability criteria are of decisive importance for the selection process. The sustainable investment strategy must then be described in detail in the investment terms. BaFin also makes reference to Regulation (EU) 2019/1156 on facilitating cross-border distribution of collective investment undertakings, which could lead to the conclusion that the guidance also captures EU and non-EU investment funds marketed into Germany. Notwithstanding this reference, BaFin explicitly states that the guidance only applies to domestic public investment funds (inländische Publikumsinvestmentvermögen), i.e. German retail AIFs and UCITS.	No direct impacts unless AFME members have fund manager affiliates manufacturing German funds.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The consultation process for the guideline is open until 6 September 2021. BaFin does not explicitly state from when the guideline will apply. We expect BaFin to clarify this point following the end of the consultation process when publishing the final guideline or confirming that no changes will be included in the guideline. The guidelines includes a grandfathering provision whereby the requirements do not apply to investment funds whose investment terms have already been approved by BaFin at the time of the publication of the guideline.	No direct impacts.	AFME members may be indirectly impacted when distributing German funds in Germany as the managers of such products may look to impose strict guidelines on how they are marketed from an ESG perspective to avoid triggering these requirements.	Germany

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Corporate Sustainability Reporting Directive ("CSRD")	The European Commission's Proposal for a Corporate Sustainability Reporting Directive will revise and enhance the current ESG reporting rules in the Non-Financial Reporting Directive (NFRD) that currently only apply to public interest entities (which include EU credit institutions) which are deemed to be "large" on a solo or consolidated basis under the Accountancy Directive. The CSRD will apply to all "large" EU entities (even if not public interest entities) and all listed EU companies. The key policy objective of the new CSRD is to ensure that a much broader range of companies report reliable, coherent and comparable sustainability information for the benefit of investors and other stakeholders. See also Taxonomy Art 8 Delegated Act row above.	In-scope companies would have to report information on the full range of environmental, social and governance issues relevant to their business, in accordance with mandatory EU sustainability reporting standards (with more proportionate standards being developed for SMEs). This would include not just sustainability risks faced by the company, but also the impact of its business on broader ESG objectives (e.g. the impact of the business on climate change). Consistent with the existing rules laid down in the NFRD, in-scope companies would have to report about the risks to the company arising from sustainability issues, and about their own impacts on people and the environment. This will include information on companies' global supply chains regarding issues such as forced and child labour and consistent with internationally recognised principles and frameworks such as the International Labour Organisation ("**ILO**") Declaration on Fundamental Principles and Rights at Work. The proposals are expected to be complementary to the Taxonomy Regulation disclosures that will also apply to these corporates and will build on the screening criteria and "do-no-significant-harm" thresholds of the EU Taxonomy. Notably, there is an obligation for this information to be audited, although the Commission is proposing to start with a "limited" assurance requirement. **Note**: local Member State implementations may mean that reporting start dates are different and/or the population of in-scope entities is broader. This will need to be confirmed in due course by reference to local Member State implementations.
Switzerland – Non financial disclosures	The Swiss parliament has passed an amendment introducing non-financial reporting and mandatory human rights due diligence to (i) large entities in Switzerland and (ii) prudentially supervised financial institutions. The reporting is based on the model of the EU Non-Financial Reporting Directive.	Disclosure obligation for entities in Switzerland – which will include Swiss banks.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The Commission is expected to adopt the first set of reporting standards by the end of 2022. In-scope entities would therefore need to start applying the new CSRD standards to reports published in 2024, covering financial year 2023. All listed EU companies will be in scope from 2026.	These disclosures must be made at an entity level, covering all the business lines of the large institution. Corporate reporting/disclosure teams will need to ensure that the relevant disclosures are prepared and published.	These disclosures are likely to attract client and market scrutiny and may be used as a basis to challenge sustainability claims/ commitments made by the firm.	EU
Implementation is expected to take place from 2023 for the financial year 2022.	Whole bank impact	Where disclosure obligations impact bank clients, likely indirect impact (e.g. data requests) on banks.	Switzerland

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
International Sustainability Reporting Standards	Key international initiatives seeking to develop sustainability reporting standards include: • Task Force on Climate-related Financial Disclosures ("**TCFD**"). The key policy objective of the TCFD is to develop recommendations for more effective climate-related disclosures that could promote informed investment and credit decisions and, therefore, allow stakeholders to better understand the concentration of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. The TCFD has recently consulted on additional changes to its framework. In the UK, the FCA has made TCFD disclosures mandatory for premium listed commercial companies, and is consulting on extending the regime to standard listed commercial companies as well. • Sustainability Accounting Standards Board ("**SASB**"). SASB has developed industry-specific standards to enhance the reliable and consistent disclosure of financially material sustainability information by companies to their investors across 77 industries. SASB has recently merged with the International Integrated Reporting Council ("**IIRC**") to form the Value Reporting Foundation ("**VRF**") which, together with CDSB, will be consolidated under the International Sustainability Standards Board (ISSB) under the IFRS foundation. • Global Reporting Initiative ("**GRI**"). The GRI Sustainability Reporting Standards are a set of standards for sustainability reporting (including environmental and climate change reporting) to enable corporations to measure and understand their impacts on the environment, society and the economy. • International Financial Reporting Standards ("**IFRS**") Foundation – which are currently being developed. The Trustees of the IFRS Foundation have identified what they describe as an "urgent need to improve the consistency and comparability in sustainability reporting". The IFRS Foundation will establish an International Sustainability Standards Board ("**ISSB**"), which would be tasked to develop a "comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs". The new IFRS Foundation Constitution was published on 3 November, setting out the global structure, governance and responsibilities of the new ISSB. From a UK perspective, the formation of the ISSB is of particular relevance because the UK Government noted in its Greening Finance paper published last month and in FCA Discussion Paper 21/04 published on 3 November, that it expects the ISSB standards to form a core component of the Sustainability Disclosure Regulation framework (in particular when it comes to disclosures by corporates). The UK Government also intend to create a mechanism to adopt and endorse ISSB-issued standards for use in the UK • In November 2021, the Board of the International Organization of Securities Commissions ("**IOSCO**") published its recommendations for regulators and policy makers on improving sustainability-related practices, policies, procedures and disclosures across the global asset management industry. A separate IOSCO report is expected in November covering recommendations for ESG data and ratings providers. • The CFA Institute has published its first voluntary Global ESG Disclosure Standards for Investment Products which have been designed to help 'mitigate greenwashing' and enable investors, consultants, advisors and distributors to better understand, evaluate and compare ESG investment products. The standards, published on 1 November 2021, were developed following an industry-wide consultation to create standards that are based on the principles of fair representation and full disclosure of ESG issues within the objectives, investment process, and stewardship activities of investment products. The standards apply to all types of investment vehicles, asset classes, and ESG approaches. They do not address corporate-level reporting or firm-level disclosures, naming, labelling or rating products, or the content of investment products' periodic reports.	**TCFD** – Disclosures required on climate-related risks and opportunities in relation to the organisation's governance, strategy and financial planning, risk management and metrics and targets. The FCA has made TCFD disclosures mandatory for premium and standard listed commercial companies. **SASB** – Develops sustainable accounting standards that are organised under five broad dimensions: • *environmental impacts* – addresses environmental issues which may result in impacts to the company's financial conditions or operating performance; • *social capital* – which addresses the *management* of relationships with key outside parties addressing issues such as human rights, protection of vulnerable goods, affordability, customer privacy, etc.; • *human capital* – which *addresses* the company's human resources, including issues such as productivity, labour relations and health and safety; • *business model and innovation* – which addresses the integration of E/S issues in the company's value-creation process and product innovation; and • *leadership and governance* – which involves the management of issues that are in potential conflict with the interest of broader stakeholder groups. **GRI** – The GRI Sustainability Standards comprise a modular framework consisting of: • three general standards that provide a starting point for reporting, guidance on reporting contextual information about an organisation and guidance on reporting the management approach for each topic; and • separate standards for specific disclosures relating to environmental, economic or social issues. On the environment in particular, there are separate standards for the topics of materials, energy, water, biodiversity, emissions, waste, environmental compliance and supplier environmental assessment. **IFRS** – There are currently no key actions in relation to the IFRS Foundation's standards. A definitive proposal on the creation and work of the SSB is expected in time for the UN's COP26 conference in November 2021. The IFRS Foundation announced the establishment of the ISSB at the COP26 UN climate summit in November 2021, with climate standards to be issued as early as June 2022. The IFRS Foundation will then decide whether to expand the climate standards to incorporate other ESG/ sustainability information.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
Development and consolidation of the various sustainability reporting standards is ongoing. The FCA's mandatory TCFD disclosure regime for premium listed corporates is already in force. The consultation for the extension to standard listed corporates closed on 10 September 2021.	Corporate reporting/disclosure teams will need to ensure that the relevant disclosures are prepared and published in respect of any AFME members that: (i) are obliged by local law to follow such standards; or (ii) have voluntarily adopted any of the relevant sustainability reporting standards.	These disclosures, or even failures to publish such disclosures, are likely to attract client and market scrutiny and may be used as a basis to challenge sustainability claims/ commitments made by the firm.	Global

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Switzerland – Swiss Funds and Asset Management Association (AMAS) and Swiss Sustainable Finance (SSF) Key Messages and Recommendations	The recommendations are non-binding intended to support asset managers aiming to integrate sustainability into their products and services. They focus on the following topics: i. Governance ii. Investment Policy iii. Investment Strategy iv. Risk Management v. Transparency and Reporting A follow-up publication is being prepared with recommendations on specific disclosure items relevant for different sustainable investment strategies. This will be published by end 2021.	Recommendations for Swiss financial service providers

	Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
	Published on June 16, 2020.	Not legally binding.	Not defined.	Switzerland

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability in financial services sectoral legislation		
Delegated acts integrating sustainability into UCITS, AIFMD, MiFID II, Solvency II and IDD	The draft Delegated Acts incorporate sustainability considerations into the UCITS, AIFMD, MiFID II, Solvency II and IDD frameworks. The draft DAs are based on ESMA and EIOPA reports on technical advice submitted in April 2019, which concluded that further clarification on the integration of sustainability risks and factors in the existing delegated acts was necessary. The proposals include obligations to embed: • the consideration of sustainability risks in the organisational, governance and risk management framework; • the consideration of sustainability preferences/risks in the conflicts framework; • the consideration of sustainability preferences in the suitability assessment process, when providing advice or managing investments; • the consideration of sustainability risks and principal adverse impacts of investment decisions, in the context of investment due diligence conducted by AIFMs and UCITS managers; and • the consideration of sustainability factors/objectives in the target market and broader product governance framework. The Delegated Acts are set out below: • Commission Delegated Regulation (EU) 2021/1253 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms • Commission Delegated Directive (EU) 2021/1269 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations • Commission Delegated Regulation (EU) 2021/1255 amending Delegated Regulation (EU) 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by alternative investment fund managers • Commission Delegated Directive (EU) 2021/1270 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for UCITS • Commission Delegated Regulation (EU) 2021/1256 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings • Commission Delegated Regulation (EU) 2021/1257 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products	Uplifts will be required to existing risk management, conflicts and broader organisational policies and procedures to ensure ESG risks and factors are appropriately covered. Firms will need to ensure that senior management has a sufficient understanding of ESG risks across all business lines. The target markets and product governance framework for all products will need to be considered and, as appropriate, updated in light of these reforms. AFME members that provide investment advice will need to ensure they obtain information from clients on "sustainability preferences", and do not present products that do not meet the client's sustainability preferences as meeting their ESG needs. This will be a tricky exercise as the definition of sustainability preferences now refers to a preference expressed by the client for financial instruments/products that: (i) have a minimum proportion of Taxonomy compliance or a minimum proportion of "sustainable investments" (as defined in the SFDR) – and the minimum proportion will then be set by the client; or (ii) consider principal adverse sustainability impacts (PASIs), but in accordance with qualitative or quantitative elements set by the client. AFME members will therefore need to potentially assess the product ranges they advise on against these preferences – even where the product manufacturer has not done the assessment of Taxonomy alignment etc. itself.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The majority of the Delegated Acts come into force from 1/2 August 2022, and firms will need to be compliant with the relevant requirements, as of that date. However, Member States will need to amend their national rules to implement the directive amending the MiFID product governance rules by 21 August 2022, to apply from 22 November 2022.	All business lines will be generally impacted because of the requirements to embed ESG within risk management, conflicts and product governance frameworks (which will be relevant across all business lines – including ECM/ DCM, Structured Products teams, Research, etc.). There will also be specific impacts for Asset Management, Wealth Management and other advisory businesses.	The changes introduced to the suitability and product governance regimes will likely lead to distributors/investors demanding increased information on the greenness of products manufactured by banks/brokers.	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Fiduciary Duties and further amends to AIFMD, MiFID II, UCITS, IDD and IORP II.	As part of the Renewed SF Strategy, the Commission will ask EIOPA to consider and assess the introduction of a fiduciary obligation on pension schemes to consider the positive and negative sustainability impacts of their investment decisions. The aim would be to ensure that the framework better reflects members' and beneficiaries' sustainability preferences and broader societal and environmental goals. The Commission will separately collaborate with the ESAs to consider and assess further measures to ensure other buyside firms and advisers consider the positive and negative sustainability impacts of their investment decisions, and of the products they advise on, on a systematic basis. The Commission will also review relevant frameworks relating to investors' stewardship and engagement activities. In particular, the Commission will explore how the Shareholder Rights Directive II may better reflect EU sustainability goals and align with global best practices in stewardship guidelines.	TBC in due course – the reforms are expected to directly impact the buyside mainly, but AFME members that provide investment advice will be directly impacted.
Switzerland – Swiss Bankers Association (SBA) Guidelines for the integration of ESG considerations into the advisory process for private clients	The guidelines are non-binding. They are based on six fundamental principles : i. determining the client's expectations regarding ESG investments and documenting them in the advisory process; ii. presenting an adequate overview of ESG factors; iii. describing the range of ESG investment solutions; iv. matching the characteristics of ESG solutions with the client's expectations; v. developing ESG investment solutions in line with the client's expectations; and vi. providing services with diligence and transparency. The guidelines aim at being in line with the latest legislative developments in EU law, in particular point 4 of the European Commission's Action Plan (sustainability preferences). The SBA's guidelines thus pursue, at least in part, an objective of facilitating access to the European market for Swiss players whose practices are aligned with those of their European counterparts.	Recommendations for Swiss financial service providers

	Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
	The reports are due by 2022	TBC in due course – any teams providing investment advice will be directly impacted.	TBC in due course	EU
	Published on June 4, 2020.	Not legally binding.	Not defined.	Switzerland

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability in prudential requirements		
CRR/CRD amendments (ESG risk supervision)	In June 2021, the European Banking Authority (EBA) published its Report on management and supervision of ESG risks for credit institutions and investment firms. The Report contains the EBA's assessment of how to include ESG risks into the three pillars of the prudential framework. It assesses their potential inclusion in Pillar 2 by providing common definitions of ESG risks, elaborating on the arrangements, processes, mechanisms and strategies to be implemented by credit institutions and investment firms to identify, assess and manage ESG risks.[25] The Report recommends the incorporation of ESG risks into credit institutions' and investment firms' business strategies, internal governance arrangements and risk management frameworks. For credit institutions, the Report also addresses supervision of ESG risks. The EBA identifies a need to reflect ESG risks in the supervisory evaluation of institutions falling within the scope of the CRR/CRD and highlights that the existing Supervisory Review and Evaluation Process (SREP) may not enable supervisors to sufficiently understand the longer-term impacts of ESG risks. Accordingly, the Report identifies a need to introduce a new aspect of analysis in the supervisory assessment process. This would take the form of an evaluation of whether credit institutions sufficiently test the long-term resilience of their business models against the time horizon of the relevant public policies or broader transition trends, on at least a 10-year time horizon. The Report will be used by the EBA as a basis for the development of EBA Guidelines on the management of ESG risks by institutions and for updating the SREP Guidelines to include ESG risks in the supervision of credit institutions.	AFME members to assess and, as appropriate, uplift their risk management frameworks to identify, assess and manage ESG risks. AFME members to also consider if ESG risks are sufficiently considered and incorporated within their business strategies and internal governance arrangements, and to make appropriate enhancements where necessary.
CRR/CRD amendments (Pillar 3)	CRR (as amended by CRR2) contains a new requirement for large institutions which have issued securities that are admitted to trading on a regulated market of a member state to disclose information on ESG risks (including physical and transition risks as defined in the above Report).[26] These disclosures are applicable from June 2022 on an annual basis for the first year and biannually thereafter. On 1 March 2021, the EBA published its Consultation Paper on prudential disclosures on ESG risks in accordance with Article 449a CRR. The Consultation Paper was issued in response to the EBA's mandate to develop implementing technical standards specifying the disclosure requirements in a way that conveys sufficiently comprehensive and comparable information for users of that information to assess the risk profile of the institution. The consultation paper proposes a highly granular and extensive set of disclosure requirements and provides a series of tables and templates which institutions would need to complete. These cover a range of items, including: • tables for qualitative disclosures on ESG risks; • templates with quantitative disclosures on climate change transitional risk; • templates with quantitative disclosures on climate change physical risk; and • templates with quantitative information and KPIs on climate change mitigating measures, including the GAR on taxonomy-aligned activities and other mitigating actions. There has been concern at an industry level around the degree to which such data will be available given the first phase-in for reporting by corporates under CSRD is expected by 2024, which would be one year after affected firms will be expected to complete their first disclosure. Whilst the Consultation Paper envisages the use of proxies and estimates where customer data is not available, there are concerns around the practical benefit of heavy reliance on such data sources.	In-scope AFME members would have to complete a series of detailed tables and templates which in turn will require detailed customer-level data. Firms will need to augment existing disclosure processes and systems and identify and embed synergies with Article 8 taxonomy reporting where relevant (noting that disclosures under this regime are required biannually as opposed to annually under Article 8 taxonomy).

25 The Report was mandated under Article 98(8) of CRD and Article 35 of IFD.

26 Article 449a CRR.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
Report issued in June 2021.	All business lines will be generally impacted because of the requirements to embed ESG within risk management, governance and business strategy. Corporate reporting/disclosure teams will need to ensure that the relevant disclosures are prepared and published.	ESG risks are likely to play an increasingly important role in regulatory engagement and oversight – both within and outside the SREP.	EU
The Consultation Paper closed for comments on 1 June 2021. The first set of disclosures are expected to be required in January 2023.	All, as these disclosures must be made at an entity level, covering all the business lines of the large institution. Corporate reporting/disclosure teams will need to ensure that the relevant disclosures are prepared and published.	These disclosures are likely to attract client and market scrutiny – particularly where it seems that the firm is not managing ESG risks effectively.	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
EU Banking Package – CRDVI / CRR III proposal	Following the EBA's report on management and supervision of ESG risks for credit institutions and investment firms in June 2021 and the Commission's renewed Sustainable Finance Strategy in July 2021, the Commission adopted (October 2021) legislative proposals for a review of the Capital Requirements Regulation (CRRII) and the Capital Requirements Directive (CRDV). While the package primarily aims at ensuring a stronger resilience of EU banks to potential future economic shocks by finalising the implementation of the Basel III rules, it is also intended to contribute to the transition to climate neutrality. To do this, requirements in relation to the following areas are proposed: • Introduction of uniform definitions for types of ESG risk, so that standardised and clear definitions can lead to comparable measurement and assessment of risk. • Business strategies, processes and governance frameworks must include consideration of ESG risks, with the time horizon for strategic planning to be extended to at least ten years when incorporating ESG-risk considerations into business strategies. EBA guidelines will be developed to specify the criteria for the assessment of ESG risks. • The management body will be required to develop and sign-off on specific plans and quantifiable targets to monitor and address the risks arising from the misalignment of the business model and strategy of the institutions with the relevant EU policy objectives or broader ESG transition trends. • Disclosure of information on exposures to ESG risks is proposed to be included in the supervisory reporting of all institutions (not just large institutions, as required by CRR II). • ESG risk will be incorporated into supervisory review process. What has not yet been proposed is whether a dedicated prudential treatment of ESG exposures should be developed, or whether the treatment of ESG risks can be factored into the existing capital requirements framework.	TBC in due course – the reforms will impact AFME members, who will need to assess and, as appropriate, uplift their risk management and regulatory capital frameworks to identify, assess and manage ESG risks.
Stress testing and scenario analysis	The ECB has conducted a first-of-its-kind, economy-wide climate stress test which encompasses 1,600 euro-banks and which covers a period of 30 years into the future. The results were published on 22 September 2021. Additionally, the ECB intends to conduct a 2022 climate risk stress test for SSM supervised banks.[27] This will rely on banks' self-assessment of their exposure to climate change risk and their readiness to address it. On 18 October 2021, it sent a 'Dear CEO' letter providing information on participation in that stress test. The EBA is also expected to publish guidelines on the requirement for banks to conduct internal stress tests on climate resilience as part of the Renewed SF Strategy.	Public information around the ECB's intentions is limited at this stage.
Prudential treatment of green exposures	The EBA is mandated under CRR (as amended by CRR2) to produce a report by June 2025 on whether a dedicated prudential treatment of exposures associated substantially with environmental or social objectives would be justified. This report would be potentially significant in linking the prudential treatment of an asset to its environmental or social status. As part of its Renewed SF Strategy, the Commission noted that it intends to bring the timing for this review forward to 2023.	TBC in due course
Solvency II Review (2021)	The Renewed SF Strategy includes the following proposals in relation to the review of Solvency II: • requirement for insurers to conduct climate change scenario analysis; • EIOPA to assess the need for a dedicated prudential treatment of environment-related assets and activities; and • EIOPA to assess effectiveness of current prudential regime and possible amendment of Solvency II Das.	TBC in due course

27 This is separate to the economy-wide stress test that the ECB has conducted in 2021.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The proposals are at any early stage. There publication in the OJEU can be expected for 2023 at the earliest, with the rules applying from 2025 at the earliest. The EBA's analysis on whether a dedicated prudential treatment for ESG risks is required is expected in 2023.	All business lines will be generally impacted because of the requirements to embed ESG within risk management, governance and business strategy.	ESG risks are likely to play an increasingly important role in regulatory engagement and oversight – both within and outside the SREP.	EU
Further details about the stress test were published in October 2021 in the ECB's "Dear CEO" letter	As above	The outcomes of these stress tests are likely to drive regulatory engagement/scrutiny on ESG matters.	EU
EBA to deliver its report in 2023. Amendments to CRR/CRD to be considered in due course.	The proposals will be directly relevant to the prudential/capital requirements of the firm.	These proposals will likely impact on the structuring of product issuances by financial services firms.	EU
Review to be completed by 2023.	Insurance activities	TBC in due course	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Systemic Risk	The Renewed SF Strategy includes proposals for the Commission to report on: • methodological frameworks and potential financial risks of biodiversity loss (by Q4 2023); and • climate-related financial stability risk with possible policy proposals (by end-2022). The ESAs and ECB will also perform regular climate change stress tests, with the Commission required to analyse how to integrate such identified risks into regulation. Possible legislative proposal to amend the macro-prudential toolbox for bank supervisors.	TBC in due course
Disclosure and Reporting	The Renewed SF Strategy includes proposals for the Commission to: • extend disclosure requirements related to environmental risks to a larger universe of banks; • assess if ESG information of financial institutions should be integrated into prudential reporting; and • recognise that measures to enhance energy efficiency of a mortgage collateral can be considered as unequivocally increasing property values.	TBC in due course – but likely to be similar action points to the previous prudential rows.
ECB's Action Plan	The ECB's Action Plan includes climate change considerations in its monetary policy. The Plan includes an ambitious roadmap which further incorporates climate change into its policy framework. The proposals include plans to: • make changes to the framework of the allocation of corporate bond purchases to incorporate climate change criteria. This includes aligning issuers with EU legislation implementing the Paris Agreement through climate change-related metrics or commitments of the issuers to such goals; and • introduce disclosure requirements in line with EU policies as an eligibility requirement for private sector assets in collateral framework and asset purchases, as a new eligibility criterion or as a basis for a differentiated treatment for collateral and asset purchases. This is to promote more consistent disclosure practices in the market.	There is no immediate action for AFME members. Instead, members would be impacted by any further legislation, guidance and policy which is published in accordance with the proposals in the EBA's Action Plan.
EBA's Report on the management and supervision of ESG risks for credit institutions and investment firms	The EBA's Report covers the following: • the impact of ESG risks: The report outlines the impact that ESG factors, particularly climate change, can have on institutions' counterparties or invested assets, affecting financial risks. It also illustrates available indicators, metrics and evaluation methods for ESG risk management and identifies remaining gaps and challenges • recommendations to incorporate ESG risks-related considerations: The EBA provides recommendations for institutions to incorporate ESG risk-related considerations in strategies, objectives and governance structures, and to manage these risks as drivers of financial risks in their risk appetite and internal capital allocation process. The EBA also recommends developing approaches to test the long-term resilience of institutions against ESG factors and risks. • proposal for a phase-in approach: The approach starts with the inclusion of climate-related and environmental factors and risks into the supervisory business model and internal governance analysis. It also encourages institutions and supervisors to build up data and tools to develop quantification approaches to increase the scope of the supervisory analysis to other elements. The EBA states that the report should be considered in conjunction with the EBA and ESAs disclosure publications under the CRR, the Taxonomy Regulation and the SFDR. The EBA will publish Pillar 3 disclosure requirements on ESG, transition and physical risks. The EBA will use the report to develop guidelines on the management of ESG risks by institutions and an update of the SREP guidelines to include ESG risks in the supervision of credit institutions. The EBA's Report describes a supervisory approach to climate change risk management that sits alongside the approach developed under CRR.	TBC in due course: the report may lead to the development of guidelines and standards, or may lead to legislative changes to eg CRR to incorporate ESG risks more explicitly.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
Between 2022 and 2023	TBC in due course	TBC in due course	EU
TBC – timing unclear but likely to be 2023	TBC in due course – but likely to be similar action points to the previous prudential rows.	TBC in due course	EU
The Action Plan was released on 8 July 2021.	TBC in due course	TBC in due course	EU
The report was published on 23 June 2021. The EBA has submitted the report to the EU Parliament, the Council of the EU and the European Commission, who are invited to take it into consideration in the context of the renewed sustainable finance strategy and the review of the CRD IV and CRR. The EBA will use the report and recommendations to develop guidelines on the management of ESG risks by institutions and an update of the SREP guidelines to include ESG risks in the supervision of credit institutions.	The Report may lead to impacts to AFME members through changes to prudential risk management requirements eg in CRR or through the development of supplemental guidelines and standards.	TBC in due course	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
ECB's Guide on climate-related and environmental risks for banks	The ECB has published its final Guide on climate-related and environmental risk. The Guide explains how the ECB expects banks to prudently manage and transparently disclose such risks under current prudential rules. Based on these expectations, the ECB followed up with the banks through two key steps: • In early 2021, the ECB asked the banks to conduct a self-assessment in light of the supervisory expectations outlined in the Guide, and to then draw up appropriate action plans. These were then benchmarked and challenged in the supervisory dialogue. • In 2022, the ECB will conduct a full supervisory review of banks' practices. The ECB will then implement follow-up measures where needed. The ECB's Guide impacts "significant institutions", being the largest Eurobanks	The key action for AFME members who are "significant institutions" is to implement plans which comply with the ECB's expectations for managing climate-related and environmental risk. They will then be subject to supervisory review in 2022.
PRA's Climate Change Adaptation Report 2021	The Climate Change Adaptation Report (2021), 'Climate-related financial risk management and the role of capital requirements', outlines the PRA's response to the risks posed by climate change to its operational and policy functions. At the same time, the UK Pensions Regulator and FCA also published Climate Change Adaptation Reports. The report is divided into two parts: • Part A of the report examines the risks posed by climate change to PRA regulated firms, the progress they have made in their management of these risks, what the PRA's response to these risks has been, and the PRA's supervisory strategy from 2022. • Part B of the report examines the relationship between climate change and the banking and insurance regulatory capital regimes, whether there are gaps that should be addressed, and the PRA's planned future work in this space. This report embeds climate change into the PRA's supervisory approach from 2022. It highlights the PRA's expectation that firms will manage climate-related financial risks on an ongoing basis. The report signals a shift in the PRA's climate-related supervisory expectations, from previously one of assessing implementation, to now actively supervising against them.	AFME members will need to comply with the PRA's expectations on the management of climate-related risks, and can expect those expectations to form part of the supervisory approach taken by the PRA to those it regulates.
Austrian Financial Market Authority Guide for managing sustainability risks	The Guide focuses on the need for climate risks to be methodically addresses as part of risk management and the FMA expects appropriate consideration of all ESG risks. This Guide is intended to serve as guidance for entities supervised by the FMA in considering sustainability risks within the scope of their business activities, and is intended in particular to prepare them for the application of SFDR and the Taxonomy Regulation	Ensure that sustainability risks are considered in risk management, strategy and governance.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
At the beginning of 2022, the Supervisor Review and Evaluation Process ('**SREP**') will begin.	The ECB Guide will require AFME members to evaluate their approach to environmental and climate- risk management, ensuring compliance with ECB standards. The implementation of the guidelines will affect how whole banks are managed and their disclosure regimes.	N/a	The Guide is applicable to the EU region and Single Supervisory Mechanism ('**SSM**') members.
The report was published on 28 October 2021. The shift in the PRA's supervisory and regulatory approach will take effect from 2022. A high-level timeline of key PRA climate-related work is available on page xi of the Report.	The PRA's Report will impact upon the management of climate-related risks across the whole institution.	Whole bank	UK
To be implemented asap after publication of the guide.	Whole bank	Whole bank	Austria

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability benchmarks		
Regulation (EU) 2019/2089 on Low Carbon Benchmarks ("LCBR")	Amends the Benchmarks Regulation 2016/1011 to: (i) introduce two new categories of low carbon benchmarks – "EU Climate Transition" and "EU Paris-aligned" benchmarks (**Note**: pursuant to recital 16 of the LCBR, the labels EU Climate Transition and EU Paris-aligned benchmarks can only be used within Europe, where the benchmark complies with the relevant LCBR standards); and (ii) introduce new ESG disclosure obligations for benchmark administrators. Administrators of benchmarks (or families of benchmarks) need to disclose (for all benchmarks other than interest rate and FX) whether the benchmark pursues ESG objectives, and if it does, administrators need to: (a) publish an explanation of how the key elements of the methodology reflect the ESG factors; and (b) explain in the benchmark statement how ESG factors are reflected for each benchmark or family of benchmarks.	Although administrators have been required to comply with the disclosure requirements since 30 April 2020, the delay to the publication of the delegated acts setting out the detailed minimum requirements for the disclosure (published December 2020) meant that market participants generally took the approach of holding off on updating their documents following the ESMA no action letter issued on 29 April 2020. In practice, this means that all benchmark administrators will need to update their methodology and their benchmark statements as soon as possible to either disclose any ESG elements of the benchmark or to confirm that there are no ESG elements. However, administrators are still navigating their way around the delegated acts and considering how they can obtain all of the data that they need. It is noted that there are some inconsistencies in the drafting of the delegated acts, but they seem to indicate that estimates and the use of estimation models are permitted. It is acknowledged that there is a gap between what is currently reported under the NFRD (and the TCFD) and what benchmark administrators need to disclose, and although the new CSRD proposals should help to address this (by expanding the scope of EU entities subject to Taxonomy-related disclosure requirements), there will be a time lag. It may, therefore, be that more guidance is needed for benchmark administrators in the meantime.
Delegated Regulations to the LCBR	Delegated Regulation on minimum standards for EU Climate transition benchmarks and EU Paris-aligned benchmarks (Low Carbon Benchmarks DR) – fleshes out the detailed, minimum requirements that apply to benchmarks seeking to be classified as EU climate transition and EU Paris-aligned benchmarks. Delegated Regulation on the minimum content of the explanation of how ESG factors are reflected in the benchmark methodology (ESG Methodology DR) – mandates minimum content disclosures for low carbon benchmarks that all benchmark administrators must make. Delegated Regulation on the explanation in benchmark statements regarding how ESG factors are reflected (Benchmark Statement DR) – this sets minimum disclosure requirements in relation to how each benchmark considers specific ESG factors. **Note:** in recent SFDR Q&As (see SFDR row below), the European Commission stated that where EU Paris-aligned benchmarks or EU climate transition benchmarks are used by FMPs under SFDR to create Article 9 SFDR products, the benchmark administrators must additionally ensure compliance with the SFDR "sustainable investments" requirements with respect to the selection of constituent companies in the EU Paris-aligned/climate transition benchmark. This was an unexpected development as the methodologies for EU Paris-aligned benchmarks and EU climate transition benchmarks are very detailed already, and whilst they meet some limbs of the SFDR "sustainable investments" test, they do not tick off all the requirements.	See above. Additionally, administrators of EU Paris-aligned benchmarks are obliged to exclude from the benchmark any companies that are found or estimated by them to do no significant harm (DNSH) to one or more environmental objectives covered by the Taxonomy Regulation – we expect that benchmark administrators will have to follow the Taxonomy TSCs (see row above) from 1 January 2022 for climate change adaption/mitigation and from 1 January 2023 for the other four Taxonomy environmental objectives. The same DNSH obligation kicks in for administrators of EU Climate Transition Benchmarks from 31 December 2022.
Further EU ESG Benchmark	The Renewed SF Strategy includes an assessment of the possibility to create an ESG Benchmark methodology (i.e. one that is not just focused on climate).	TBC in due course.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The regulation is in force. Provisions relating to the administration of the new ESG benchmarks have applied since 30 April 2020, along with the requirements on benchmark administrators to make the relevant ESG disclosures. By 31 December 2021, all administrators are required to include disclosure in their benchmark statement on how their methodology aligns with the target of carbon emissions reduction or attains the objectives of the Paris Agreement. Administrators of significant benchmarks are also required to "endeavour" to provide one or more EU Climate Transition Benchmarks by 1 January 2022.	Benchmark administration business	Benchmark administration teams will likely be asked by buyside clients subject to SFDR to explain how their benchmarks align with the SFDR tests for Article 8/9 products – especially following the Commission Q&A on SFDR (see Delegated Regulations to the LCBR and SFDR rows below). Business teams using third party benchmarks to create green products should also be mindful of the ESG disclosures proposed by the third-party benchmark administrators to ensure that their view of the ESG-ness of the benchmark also matches the view of the benchmark administrator.	EU
In force since 23 December 2020 – note that administrators of significant benchmarks are also required to "endeavour" to provide one or more EU Climate Transition Benchmarks by 1 January 2022. Please also see the previous column for key deadlines related to the Taxonomy Regulation. **Note:** in its Renewed SF Strategy, the Commission noted that it will be conducting a review of minimum standards for Climate Transition Benchmarks and Paris-aligned Benchmarks by 31 December 2022.	As above.	As above.	EU
By 31 December 2022	Benchmark administration business	TBC in due course – but likely as above.	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Benchmarks Regulation ((EU) 2016/1011) (UK Benchmarks Regulation)	The Low Carbon Benchmarks Regulation (including the Delegated Regulations) has been onshored into UK law.	See LCBR row above – same impacts as under the EU LCBR, but given that we do not have a UK Taxonomy Regulation as yet, it is unclear how the requirements in the Delegated Acts regarding compliance with Taxonomy standards (e.g. the DNSH requirement) should be complied with.
Frameworks, standards and labels		
EU Green Bond Standard	On 6 July 2021, the European Commission published its legislative proposal for a regulation on European green bonds. The proposal is part of the EU's wider agenda on sustainable finance and lays the foundation for a common framework of rules for issuers of bonds that voluntarily wish to use the designation "European green bond" or "EuGB" for green "use of proceeds" bonds (i.e. bonds where the proceeds are used to finance green assets or projects). Such products must pursue environmentally sustainable objectives under the EU Taxonomy Regulation. The EuGB framework is intended to apply to all green bond issuers, including public and private sector and financial and non-financial undertakings. The framework is also meant to be usable for issuers of covered bonds, as well as securitisations. The proposal would require the issue proceeds of such products to be exclusively and fully allocated (before the maturity of the bonds) to economic activities meeting the technical screening criteria of the Taxonomy Regulation (see rows above). The proposal includes the establishment of a system for registering and supervising external reviewers for green bonds. Issuers of European green bonds will have to undergo a pre and post-issuance review from an external reviewer registered and supervised by the European Securities Markets Authority (ESMA). The voluntary EuGB label shall only be used for bonds where the proceeds are – before maturity of the bonds – exclusively and fully allocated (without deducting costs) to finance eligible assets, such as fixed assets that are not financial assets, eligible capital expenditures, eligible operating expenditures or eligible financial assets (debt and equity) or any combination thereof. Sovereign issuers will be permitted to allocate bond proceeds to certain other types of expenditure.	Any issuance or marketing of green bonds within Europe that wishes to use these labels will need to comply with these requirements. We have included a summary below of documentation and reporting requirements. **Documentation and reporting** Prior to issuance of an EuGB, issuers must draw up an **EuGB factsheet**, a concept which is similar to what is currently referred to as a green or sustainable bond framework. An EuGB factsheet will be considered "regulated information" and so may be incorporated by reference in a prospectus prepared pursuant to the EU Prospectus Regulation. A **pre-issuance review** of the factsheet confirming that the factsheet complies with EU green bond requirements will need to be prepared by an external reviewer. **Annual allocation reports** must be published until the full allocation of the proceeds of the bond demonstrating that the proceeds of European green bonds have been allocated as required. A **post-issuance review** must be prepared by an external reviewer on the first allocation report following full allocation of bond proceeds assessing whether the issuer has allocated the proceeds in compliance with the EU green bond requirements and complied with the intended use of proceeds set out in the green bond factsheet. Issuers will also need to draw up an **impact report** on the environmental impact of the use of proceeds on an aggregated basis after the full allocation of the proceeds and at least once during the lifetime of the bond.
UK green bond reforms	On 22 June 2021, the FCA published a consultation paper on enhancing climate-related disclosures by standard listed companies, in which they asked for feedback from stakeholders on potential harms and possible UK policy intervention in the space of Green, Social and Sustainable (GSS) labelled debt instruments, including (i) the prospectus and "use of proceeds" bond frameworks and (ii) the role of verifiers and second party opinion (SPO) providers in this context. The FCA has not proposed rule changes as yet, but is seeking feedback from stakeholders on the above. Depending on the outcomes of the consultation, the FCA may propose rule changes (which we expect will be covered off in a separate consultation paper).	TBC in due course – we expect the impacts to be similar to the above row.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
Has applied in the UK from the end of the Brexit transition period. It is unclear whether the UK will expect administrators of significant benchmarks in the UK to "endeavour" to provide one or more EU Climate Transition Benchmarks by 1 January 2022.	UK benchmark administration business	See LCBR row above.	UK
The draft regulation will follow the ordinary legislative procedure before it can become binding EU law. This will involve negotiations between the European Parliament and Council. The average length of the ordinary legislative procedure is around 18 months, so it is unlikely that the new regime will be in place before the start of 2023.	DCM activities and teams that invest in or repackage debt instruments.	Existing and future green bond issuances that are sold within Europe that do not comply with the EU GBS may be compared unfavourably against these standards. This is also an opportunity area for AFME members, as there will likely be great buyside demand for these EU Taxonomy-aligned bonds, because they will enable buyside firms to deliver on the Taxonomy/ ESC commitments of their SFDR investment products.	EU (including where non-EU bonds are marketed in the EU)
The FCA consultation on enhancing climate-related disclosures runs until 10 September 2021. The FCA intends to confirm its final policy on climate-related disclosures before the end of 2021. We expect that if the FCA decides to regulate this space, they will issue a further consultation paper in due course.	TBC in due course – we expect the impacts to be similar to the above row.	TBC in due course – we expect the impacts to be similar to the above row.	UK

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
EU prospectus regulation updates	The EU Commission's Renewed SF Strategy has proposed work on targeted prospectus disclosure requirements for green, social and sustainable securities to enhance transparency and prevent greenwashing.	TBC in due course.
Extension of standards and labels	The EU Commission's Renewed SF Strategy has proposed work on further bond labels, such as transitional or sustainability-linked bonds in co-operation with the ESAs. The Renewed SF Strategy also proposes an assessment of the need for a general framework for labels for benchmarks and financial instruments more broadly (i.e. beyond current LCBR benchmarks, SFDR products and green bonds).	TBC in due course.
Securitisation	The EBA is due to publish a report (following a survey it conducted earlier this year) on developing a specific sustainable securitisation framework for the purpose of integrating sustainability-related transparency requirements into the EU Securitisation Regulation. As part of that report, the EBA is expected to also opine on whether the Taxonomy Regulation could be used as a basis for defining sustainable securitisations. The European Commission published a Targeted Consultation on the functioning of the EU securitisation framework in order to prepare the report mandated by Article 46 of the Securitisation Regulation. Among the issues covered, Section 6 is related to the disclosure of information on environmental performance and sustainability.	TBC in due course – we expect there to be disclosure and product labelling/marketing implications for in-scope firms at least.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
Proposals expected in 2022	TBC in due course – we expect ECM/DCM teams, underwriting activities and other teams issuing products that are required to prepare a prospectus will be directly impacted. Firms to be mindful of potential liability risks associated with prospectus disclosures.	TBC in due course – we expect the buyside/investors will welcome such disclosures and there will likely be increased investor and regulatory scrutiny of such disclosures.	
Bond labels – review to be completed by 2022 with legislative proposals to follow. Other labels – review to be completed by 2023 with legislative proposals to follow.	TBC in due course.	TBC in due course.	EU
EBA report was due by 1 November 2021, but is delayed (expected by the end of 2021). Following its publication the Commission is expected to submit a report to the Parliament and the Council, with a legislative proposal (if appropriate).	Structured product teams and other parts of the business acting as originators/sponsors of securitisations will be directly impacted in terms of structuring, product marketing/labelling and preparation of disclosures for securitisations. Business areas that invest in securitisations may also potentially be impacted, if reforms are also introduced for "institutional investors" that are currently subject to due diligence requirements under the EU Securitisation Regulation.	Given SFDR and general demand for sustainable products in the market, we expect that buyside investors are and will be demanding more "green" securitisations and current product issuances may then be compared against the likely high standards the EU sustainable securitisation framework will impose.	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Ecolabels	EU Ecolabels have been used since 1992 to certify the environmental quality of consumer goods within the European Union. The EU Ecolabelling Board and the Commission are now preparing draft technical criteria to extend the Ecolabel regime to retail investment products by leveraging the EU Taxonomy TSCs. The product scope will comprise: • certain packaged retail and insurance-based investment products (PRIIPs) – namely UCITS, AIFs and insurance-based investment products (IBIPs); and • the service of managing a fixed-term deposit or savings deposit products (as referred to in Article 2(1) point 3 of Directive 2014/49/EU on deposit guarantee schemes) provided by credit institutions. In order to qualify for the Ecolabel, the PRIIPs product must comply with strict eligibility criteria, which will include: i. a minimum proportion of Taxonomy-aligned investments (e.g. under the current proposals, at least 70% of the portfolio of a retail AIF should be invested in Taxonomy-aligned activities, or in the case of fixed-term or savings deposits, at least 70% of the total deposits shall be used to make green loans and/or to invest in green bonds financing Taxonomy-aligned activities); ii. exclusions for harmful environmental, social and governance activities; iii. engagement actions to foster change of corporate strategies and action; and iv. taking actions to maximise/enhance investor impact. Product manufacturers will have to apply to competent authorities to have their products awarded the Ecolabel (and will need to undergo verifications and provide detailed information in support). After being awarded the EU Ecolabel, firms will be required to provide updated information on their licensed product(s) every 12 months and will need to reapply every three years.	These are voluntary standards to create effectively super green EU products. Most of the in-scope products are buyside retail investment products; however, fixed-term or savings deposit products offered by AFME members will be eligible.
Green retail lending and mortgages	The Renewed SF Strategy requires the EBA to provide an opinion on the creation of a framework for green retail loans and mortgages. We expect that the framework will be linked to the EU Taxonomy Regulation, similar to the other product categorisation/labelling regimes noted above. There is also a requirement in the Renewed SF Strategy for a review of the Mortgage Credit Directive, which may lead to the uptake of energy efficiency mortgages.	TBC in due course
EBA Loan Origination Guidelines	The Loan Origination Guidelines aim to improve lending and monitoring practices by financial services firms when lending to both consumers and non-financial corporates. The aim of the Guidelines is improving overall stability, and this is achieved through five specific areas: • internal governance and control framework for credit-granting and decision-making processes • requirements for borrower creditworthiness assessments by differentiating between lending to consumers, micro-enterprises, and macro-enterprise • supervisory expectations of the risk-based pricing of loans • guidance on the approaches to the valuation of immovable and movable property collateral at the point of credit granting, and the review of the value of such collateral, based on the outcomes of the monitoring; and • ongoing monitoring of credit risk and exposures, including regular credit reviews of borrowers The Guidelines press firms to embed principals and supervisory expectations into their lending and monitoring processes. They consider environmental factors for loan origination and implement guidance for monitoring material ESG-related risk, by introducing environmentally sustainable lending dimensions. The Guidelines also set requirements for firms to consider ESG factors and risks in their credit policies and procedures.	Lending divisions will have had to adjust their data management processes and lending strategies to meet the Guidelines for new business.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The EU Commission's Joint Research Centre (JRC) published a report in March 2021 with details on the draft proposal for an EU Ecolabel regime for retail investment products. This was accompanied by a draft Commission decision that extends the EU Ecolabel to retail investment products. The Commission Decision is expected to be adopted in Q4 2021.	The proposals will be directly relevant to the deposit taking businesses.	Retail financial products sold within Europe that do not have an EU Ecolabel may be compared unfavourably against products which do have an EU Ecolabel. The reforms will largely be relevant to the buy-side, and could result in increased buyside demand for green/Taxonomy-aligned products or disclosures from their brokers, to ensure their investment portfolios meet these high standards.	EU
EBA opinion expected between Q2 to Q4 2022	TBC in due course – we expect that consumer lending and structured finance/securitisation desks of banks will be directly impacted.	TBC in due course	EU
The Guidelines have applied since 30 June 2021 for new loans and advances. They will apply to already existing loans and advances that require renegotiation or contractual changes with the borrowers will apply from 30 June 2022. Additionally, firms will be allowed to address possible data gaps and adjust monitoring infrastructure until 30 June 2024.	Lending/credit divisions The Guidelines will be directly relevant to the credit policies and procedures of firms.		The majority of EU members states will comply with the Guidelines. However, France and Slovenia have stated they do not intend to comply, which is in part due to their existing national legislation which already partially complies with the Guidelines. As for the UK, the Guidelines won't be applicable, but the PRA and FCA will continue to have strong loan origination and monitoring objectives, which aligns with the purpose of the Guidelines.

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability in research and ratings		
The state of sustainability-related ratings, data and research	**Proposed EU reform of ESG research and ratings providers** As part of the Renewed SF Strategy, the Commission noted that it will take action in respect of ESG research and ratings providers. This statement followed a letter from ESMA to the Commission (January 2021), in which ESMA noted specific issues relating to ESG ratings and assessment tools, and also set out a potential future legal framework. The aim of the proposed framework is to ensure that ESG ratings data is robust and reliable, to prevent the risk of greenwashing and to ensure that market participants can meet their requirements under the sustainable finance framework. ESMA set out four possible actions for this possible legal framework: • develop a common legal definition for an "ESG rating", capturing the range of assessment tools available on the market, so that all products that look to assess the ESG profile of an issuer or security are subject to the same basic level of investor protection safeguards; • require all legal entities that issue ESG ratings and assessments to be registered and supervised by a public authority, so that all such entities are subject to common organisational, conflict of interest and transparency requirements; • apply sufficiently stringent product requirements to such entities' ESG ratings and assessments, to ensure these ratings and assessments are based on up-to-date, reliable and transparent sources and robust methodologies, which investors can understand and challenge; and • ensure that the legal framework is robust enough such that larger, more systemic entities are subject to the full suite of organisational and conflicts requirements, while smaller entities may be subject to proportional relief. It is worth noting that in December 2020, the Dutch and French financial regulators put out a position paper, calling on the EU Commission to draft legislation regulating ESG data and ratings providers. The regulators cited the risks arising from lack of regulation of sustainability-service providers ("**SSPs**"), and lack of transparency on their data methodologies and potential conflicts of interest. The regulators advocated establishing an ad-hoc mandatory regulatory framework for SSPs, which would focus on the SSPs' establishment, supervision, as well as transparency around methodologies, potential conflicts of interest and governance and internal control requirements.	TBC in due course – AFME members that provide ESG ratings data or research within the EU are likely to be regulated under this new initiative.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
By Q4 of 2021, the Commission will organise a targeted public consultation on the functioning of the market for ESG ratings. Subject to an impact assessment, the Commission will take action (likely to be a legislative proposal) to strengthen the reliability and comparability of ESG ratings by Q1 2023. The Commission may assess certain aspects of ESG research, to decide on whether an intervention is necessary and on the possible appropriate measures.	TBC – but likely research desks and any other teams preparing or disseminating ESG data, research or ratings within the EU.	Once these proposals are in force, EU clients are likely to prefer to deal with entities that are regulated/supervised under this framework.	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
The state of sustainability-related ratings, data and research	**UK regulation of ESG ratings providers** On 22 June 2021, the FCA published a consultation paper on enhancing climate-related disclosures by standard listed companies. This paper addressed the role of ESG data and ratings providers and identified various policy issues for ESG rating providers and areas of potential harm in the FCA's view, including: • lack of transparency around rating methodologies; • potential conflicts of interest and concerns regarding issuers engaging in "ratings shopping"; • concerns about how ESG ratings may become hardwired into firms' investment processes, with potentially significant impacts for investors' outcomes; • lack of clarity as to the reasons for divergence amongst providers' ratings; and • absence of a common ESG framework, making ESG ratings difficult to interpret. The multi-dimensionality of ESG ratings, combined with lack of transparency of providers' methodologies, also makes it difficult to understand what ratings mean and to interpret rating changes and differences across providers.	TBC – the FCA is considering various policy actions to address the potential harms for both ESG rating providers and users. Possible actions include the following: • guidance for firms using third-party ESG data and ratings, including in relation to risk management, outsourcing arrangements, due diligence and use of ratings in benchmarks and indices; • "soft" regulation for ESG data and rating providers, such as a Best Practice Code that encourages voluntary, industry-led adherence to minimum conduct standards; or • formal regulation of ESG data and ratings providers, focusing on transparency, governance and managing conflicts of interest.
	IOSCO work on ESG ratings provider guidance On 26 July 2021, IOSCO published a consultation report on ESG ratings and data products providers, with some proposed recommendations for reform. One recommendation is that securities markets regulators may wish to consider focusing greater attention on the use of ESG rating and data products and the activities of ESG rating and data products providers in their jurisdictions. A further set of recommendations is addressed to ESG rating and data products providers and proposes that they may wish to consider some factors related to issuing high quality ratings and data products, including publicly disclosed data sources, defined methodologies, management of conflicts of interest, high levels of transparency and handling confidential information. Other recommendations suggest that users of ESG ratings and data products may wish to consider conducting due diligence on the ESG rating and data products they use within their internal processes.	IOSCO's recommendations (once finalised) may become industry best practice or be endorsed by competent authorities.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The FCA consultation on enhancing climate-related disclosures ran until 10 September 2021. The FCA intends to confirm its final policy on climate-related disclosures before the end of 2021.	TBC – but likely research desks and any other teams preparing or disseminating ESG data, research or ratings within the EU.	Once these proposals are in force, UK clients are likely to prefer to deal with entities that are regulated/supervised under this framework.	UK
The consultation closes on 6 September. IOSCO is then expected to publish a report with updated recommendations.	Research desks and any other teams preparing or disseminating ESG data, research or ratings within the EU.	Clients are likely to have a preference for ESG data/research providers that follow IOSCO's recommendations.	Global

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Credit rating agencies regulation	As part of the Renewed SF Strategy, the Commission noted that it will take action to ensure that relevant ESG risks are systematically captured in **credit ratings** and rating outlooks in a transparent manner. This proposal was preceded by the following EU initiatives: **ESMA Technical Advice on Credit Rating Agencies Regulation ("CRAR"):** In July 2019, ESMA provided its technical advice to the Commission on potential changes to the credit rating framework to embed sustainability considerations: • ESMA considers that, while it would not be advisable to amend CRAR to explicitly mandate the consideration of sustainability characteristics in the credit assessments of a credit ratings agency ("**CRA**"), it could be useful to update the CRAR's disclosure provisions to provide a more consistent level of transparency around how credit ratings agencies are considering ESG factors in their assessments. • ESMA also suggests assessing whether there are sufficient regulatory safeguards in place for non-credit rating products to support sustainability assessments. **ESMA Guidelines on Disclosure Requirements applicable to Credit Ratings:** The EU Commission's Action Plan for Sustainable Finance also tasked ESMA with including environmental and sustainability considerations into its Guidelines on Disclosure Requirements. These guidelines were published by ESMA in July 2019, and set out: (i) guidance on what CRAs should disclose in their press releases when they issue a credit rating, to ensure a better level of consistency; and (ii) further to the Action Plan, guidance on CRAs' disclosures as to whether ESG factors were a key driver behind a change to a credit rating or outlook. Where ESG factors were a key driver behind a change to a credit rating or rating outlook disclosed under the CRAR, the press release/report should further disclose: (i) whether any of the key drivers behind the change in credit rating or rating outlook correspond to the CRA's categorisation of ESG factors, and, if so, which ones; (ii) why these ESG factors were material to the credit rating or rating outlook; and (iii) a link to the CRA's guidance/documentation explaining how ESG factors are considered in the CRA's credit ratings or within the CRA's methodologies and associated models.	Product issuances that rely on credit ratings will be directly impacted and ESG risks could result in rating downgrades for issuer banks/ clients.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The ESMA Technical Advice was published in July 2019, but it is currently unclear when it will be implemented. The ESMA Guidelines have been used in supervision since 30 March 2020. Subject to ESMA's findings and the outcome of an impact assessment, by Q1 2023 the Commission will take action (likely to be a legislative proposal) to ensure that relevant ESG risks are systematically captured in credit ratings and to improve transparency on the inclusion of ESG risks by credit rating agencies in credit ratings and outlooks.	ECM/DCM, Structured Products, other product issuance teams and Research	Poor credit ratings based on ESG risks are likely to have negative commercial implications.	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Frameworks for investing in sustainable projects		
Invest EU and MFF	The Multiannual Financial Framework ("**MFF**"), as the EU's long-term budget, aims to ensure that EU expenditure is aligned with EU political priorities. For the term of 2021 to 2027, the MMF is focussing (among other areas) on the following ESG priorities: • "Cohesion, Resilience and Values" – which includes e.g. promotion of sustainable territorial development e.g. the European Social Fund+ to support employment, the up-/re-skilling of workers and poverty reduction, etc. • "Natural Resources and Environment" – which aims to invest in sustainable agriculture and maritime sectors, alongside climate action, environmental protection, food security and rural development (noting EU claims that 30% of EU funds will be spent to fight climate change). By way of example, to address social and economic consequences coming from the objective to reach climate neutrality in the EU by 2050, a "Just Transition Fund" will help the most vulnerable coal and carbon-intensive regions address the economic and social costs of climate transition. The InvestEU fund programme will receive a €1 billion top up from the MFF, to help support the financing of sustainable EU projects (see row below).	None for AFME members specifically. Banks could, however, nonetheless seek to account for/benefit from the sustainable elements of the MMF's relevant spending categories (per the column to the left).
Public/private finance initiatives	The European Green Deal Investment Plan aims (among other things) to mobilise funding worth at least €1 trillion in the course of 2021 to 2030, to, broadly speaking fund the objectives of a just transition to a climate friendly economy. Approximately half of this would come from the EU budget (see row above), and the remainder from other public and private sources. On the latter, the "InvestEU" programme (under the MFF) shall be used to specifically mobilise public and private investment through an EU budget guarantee, by providing technical advice, and by connecting worldwide investors with projects that need funding in areas prioritised by the EU – which include financing projects with a sustainable focus. In addition to providing support to companies, this programme will also aim to turn the focus of investors towards EU policy priorities such as the European Green Deal, etc.	None for AFME members per se. However, AFME members could potentially benefit from funding opportunities under the sustainable "InvestEU" programme if their proposed projects meet the relevant eligibility criteria.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
None for AFME members, but key EU actions (to the left) generally relevant between now and 2027.	-	-	EU
None for AFME members, but key EU actions (to the left) generally relevant between now and 2030.	-	-	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability and corporate governance		
Short-termism in capital markets	In February 2019, the European Commission published a call for advice to the European Supervisory Authorities (ESMA, EIOPA and the EBA) requesting them to collect evidence of potential undue short-term pressure from the financial sector on corporations. The Commission considers that pressure of this kind could lead corporations to overlook long-term risks and opportunities, such as those related to climate change and other factors related to sustainability. Companies facing short-term pressure could, as a result, forgo investment in areas important for a successful transition towards a sustainable economy. In December 2019, the EBA published its report, in which it assessed the potential presence and drivers of short-termism by looking at potential short-term pressures exerted by banks on corporate clients, as well as the potential short-term pressures banks may be under on their own, by shareholders and capital markets. The EBA also assessed whether banking regulations may play a role in exacerbating or mitigating short-termism. Overall, the EBA identified some limited concrete evidence of short-termism (without being in a position to label it systematically as undue) and highlighted the need to promote long-term approaches. The EBA included some recommendations advocating that policy action should aim to provide relevant information and incentives for banks to incorporate long-term time horizons in their strategies, governance, business activities and risk management. In particular, the EBA recommended the following: • To maintain a robust regulatory prudential framework as a pre-condition for long-term investments, while continuing to monitor potential unintended consequences of financial regulations on the supply of sustainable investment financing. • To foster the adoption of longer-term perspectives by firms through more explicit legal provisions on sustainability in the CRD IV Directive (2013/36/EU). • To continue enhancing disclosures of long-term risks and opportunities, by both banks and corporations, by setting principles and requirements that can ensure comparability and reliability of disclosure. • To improve information flows, data access and support the role of the banking sector in raising awareness on sustainability challenges and ESG risks (e.g. by developing platforms or setting up a centralised database on environmental data for the financial sector). ESMA also published its report on undue short-term pressures in securities markets in December 2019, in which it recommended the Commission take action in key areas, such as: • disclosure of ESG factors, including: • amending the Non-Financial Reporting Directive (NFRD); • promoting a single set of international ESG disclosure standards; • requiring the inclusion of non-financial statements in annual financial reports; and • institutional investor engagement, including: • a review of the White List under the Takeover Bids Directive; • a potential shareholder vote on the non-financial statement; and • monitoring the application of the Shareholder Rights Directive (SRD II).	A number of actions identified by the EU authorities have led to broader initiatives, including, in particular, proposals to amend the NFRD through a draft Corporate Sustainability Reporting Directive (see above), and the Commission is also supportive of the work being done by the IFRS Foundation to develop a single set of international ESG disclosure standards (see above). Status of other action points TBC.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
See relevant rows above.	See relevant rows above.	See relevant rows above.	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
Directors' duties and accountability	The European Commission has consulted on a possible sustainable corporate governance initiative, which is likely to include a new mandatory human rights and environmental due diligence regime for supply chains. The aim is to encourage businesses to consider environmental, social, human and economic impacts in their business decisions, and to focus on long-term sustainable value creation rather than short-term financial value. In particular, the Commission sought views on: • whether sustainability risks, impacts and opportunities, should be integrated into the company's strategy, decisions and internal oversight; • whether stakeholders, such as employees, the environment or people affected by the operations of the company as represented by civil society organisations, should be given a role in the enforcement of directors' duty of care. Options to enhance sustainability expertise at board level; • whether companies and their directors should take account of stakeholder interests (such as those of employees and customers) alongside the financial interests of shareholders, beyond the current requirements of EU law; • whether directors should be required to balance the interests of all stakeholders, instead of focusing on the short-term financial interests of shareholders, as part of their duty of care; and • the content of a possible corporate due diligence duty requiring companies to establish and implement adequate processes with a view to prevent, mitigate and account for human rights, health and environmental impacts in the company's operations and its supply chain.	These proposals will have significant implications for AFME members, not just in relation to their own corporate governance and business, but also in relation to their supply chain and potentially client base. Specific action points TBC in due course.
Due diligence across the supply chain	The European Commission has consulted on proposals for a new EU human rights due diligence regime, as part of its wider consultation on sustainable corporate governance (see row above). Based on comments from the European Commissioner for Justice in March 2021, the new EU due diligence regime is expected to: • apply to all companies irrespective of their size that are active in the EU (and not only to those that are domiciled in the EU); • cover the entire supply chain, as limiting supply chain due diligence to direct suppliers would only have a limited effect; • cover environmental aspects, as well as human rights violations; and • require companies to take specific measures to minimise the risk of violations of international labour standards, human rights, environmental protection and climate protection and be subject to disclosure obligations, with failure to comply with the obligations being subject to fines, criminal consequences and civil enforcement. However, the Commission is apparently not aiming for a "one size fits all" solution, so larger companies and those with a very high risk of infringements could be subject to stricter regulations than smaller, low-risk companies. The European Parliament adopted a resolution in March calling for a potentially more stringent due diligence regime. However, those recommendations are not legally binding on the Commission, so until the draft proposal is published this year, it is unclear which of those recommendations the Commission will take on board. The Commission may possibly also be influenced by the new Supply Chain Due Diligence Act adopted in Germany in June 2021 – see here.	As above

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The consultation closed on 8 February 2021 and a draft legislative proposal is expected by the end of 2021.	TBC in due course – proposal is likely to impact all business lines.	Depending on their scope, the proposals are also likely to impact clients of AFME members – who will require disclosures/assurances from their service providers and supply chain, including banks and broker-dealers.	EU
The Commission is expected to publish the human rights due diligence proposal in Q4 2021.	As above	As above	EU

Action Plan Item	Initiative and description of key policy objectives	Key actions for AFME members
German Supply Chain Due Diligence Act (in English)	Once the new German Supply Chain Due Diligence Act (*Lieferkettensorgfaltspflichtengesetz*) enters into force, in-scope companies will have to: • adopt a policy statement on human rights protection in their supply chains; • establish a risk management system and regularly perform risk analyses; • implement preventive measures in their own organisation and vis-à-vis direct suppliers; • take remedial action and/or mitigate risks; • implement a complaint system; and • document their processes. The Act will apply to companies from all sectors having their head office, principal place of business, administrative headquarters or registered office in Germany and employ a minimum of 3,000 employees (as of 2024 reduced to 1,000 employees). The purpose of the Act is to protect human rights and the environment as defined by international treaties referenced in an annex to the Act. Relevant human rights risks include forced labour, child labour, discrimination, violation of the freedom of association, violation of occupational health and safety, problematic employment and working conditions as well as damage to health, shelter or subsistence goods, for example through water, soil or air pollution. Certain environmental aspects are also covered. The new law will cover the entire supply chain (understood as the production and the provision of services), albeit with gradual responsibilities along the different levels of the supply chain. The Federal Office for Economic Affairs and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle*) is primarily responsible for enforcing the new obligations by means of information and discovery requests, remediation orders as well as financial penalties and exclusion from public procurement. Depending on the individual circumstances, fines may, in principle, amount to up to EUR 800 000. However, for companies with an average annual global turnover of more than EUR 400 million during the last three years, the fines amount to up to 2% of the average turnover. In terms of civil liability, NGOs and labour unions based in Germany may enforce claims of potential victims in case of violations of highly important human rights before German courts. The Act does not include any provisions on civil liability, but responsibility remains possible under the general provisions.	In-scope companies should • check the governance framework in place in relation to supply chains, and analyse whether they have to make adjustments, • identify potential high-risk areas by taking stock of their existing supply chains and their respective compliance management systems, and • establish an effective risk management strategy.
Shareholder Rights Directive II ('SRD II')	SRD II introduces new transparency obligations on institutional investors and asset managers who are investing in shares which are listed on a regulated EEA market. It aims to obtain greater shareholder engagement in corporate governance. It reflects EU sustainability goals and aligns with global best practices in stewardship guidelines and provides a minimum baseline for effective stewardship activities and long-term investment decision-making. SRD II requires in scope institutional investors and asset managers to develop and publicly disclose an engagement policy that describes how they integrate shareholder engagement in their investment strategy. SRD II overlaps with the ESG reforms by requiring disclosures on shareholder engagement policies and implementation by institutional investors and asset managers. It also mandates disclosures on how investment strategies are consistent with the profile and duration of liabilities. On the back of SRD II, the UK Stewardship Code is being revised and now expects signatories to account for ESG factors in their stewardship approach.	

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
For in-scope companies with more than 3000 employees, the new law enters into force on 1 January 2023. The threshold will be reduced to 1000 employees as of 2024.	If the general requirements are met, credit institutions are covered by the law as service providers.	Credit institutions may be affected as direct or indirect suppliers. For example, the government proposal explicitly stated that banks will be included in manufacturers' supply chains in case of loans that finance their manufacturing activities.	Germany
Implementation of the SRD II Directive has taken place in two phases. This is subject to a few exceptions in the Directive which are not yet in force. On 10 June 2019, the Directive was initially transposed into the national laws of EU Member States. On 3 September 2020, core operational changes (being the more substantive provisions of SRD II) became applicable.	No direct impacts unless AFME members provide investment management services	Not defined.	EU The UK Stewardship Code applies in the UK

AFME Publications

In addition to responses to stakeholders' consultations and our participation in other outreach programmes, AFME's output consists of market guides, implementation advice and thought leadership pieces, drawn to support our members and their clients in their transition journey.

Some of our recent publications include:

- ESG Disclosure Landscape for Banks and Capital Markets in Europe: the report serves as a guide for the development and implementation of robust corporate disclosures. It also puts forward practical recommendations for the next stages of development for the framework.

- Discussion Paper: ESG Disclosure and Diligence Practices for the European Securitisation Market: the paper offers reflections on the current landscape and seeks to suggest a framework for market participants' due diligence with respect to securitization transactions.

- GFMA and BCG Report on Climate Finance Markets and the Real Economy: the report outlines market-wide and sector-specific recommendations necessary to accelerate investment in climate finance.

- Governance, conduct and compliance in the transition to sustainable finance: the paper sets out 15 principles to assist AFME members in establishing and/or furthering their corporate purpose and objectives in relation to sustainable finance.

- AFME Recommended ESG Disclosure and Diligence Practices for the European High Yield Market: the paper contains guidelines on sustainable finance considerations for issuers and investors when leading or otherwise participating in offerings of high yield bonds.

- GFMA and BCG Global Guiding Principles for Developing Climate Finance Taxonomies: the report recommends that all existing and new taxonomies should be assessed against five global principles and tailored to regional or national contributions, climate targets and policies, and sector-specific transition pathways.

- GFMA and BCG Report "Unlocking the Potential of Carbon Markets to Achieve Global Net Zero" with an in-depth analysis of the role, interaction and importance of both compliance and voluntary carbon markets to the low-carbon transition, and outlining the challenges which the public and private sector need to overcome to achieve this vision.

AFME also publishes quarterly European ESG Finance reports to provide detailed data and analysis on the rapidly growing Sustainable Finance market in Europe. Find the latest quarterly report on our Data and Research page.

Find more Views from AFME on our website.

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About Linklaters

Linklaters LLP is a leading international law firm. Our global ESG team is longstanding, with many years of experience advising on environmental, social and governance issues across a wide range of sectors and contexts. We have been at the forefront of supporting clients on environmental and climate matters, navigating emerging soft law human rights standards, advising on sustainable finance, business ethics issues, and designing governance frameworks, compliance systems and crisis response strategies.

We take a holistic approach, providing our expertise across a wide range of practice areas – from prudential regulatory and banking expertise to our unparalleled ESG and financial regulatory practice, business and human rights team, antibribery and corruption, risk management and dispute resolution practices.

Our ESG practice is market leading and ranked band 1 globally by Chambers and Partners for Environmental, Social & Governance risk. Further information is available at www.linklaters.com/esg

/ About AFME

The Association for Financial Markets in Europe (AFME) is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues.

We represent the leading global and European banks and other significant capital market players.

We advocate for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society.

We aim to act as a bridge between market participants and policy makers across Europe, drawing on our strong and long-standing relationships, our technical knowledge and fact-based work.

Focus
on a wide range of market, business and prudential issues

Expertise
deep policy and technical skills

Strong relationships
with European and global policymakers

Breadth
broad global and European membership

Pan-European
organisation and perspective

Global reach
via the Global Financial Markets Association (GFMA)

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