Brown Brothers Harriman

Europe's Mission to Mars

EU ESG Regulation

Ensuring Sustainable Growth

The growing trend of deeper integration of sustainability and environmental, social, and governance (ESG) principles into asset management is undisputed. Nowhere has the cry been louder than in Europe. The EU has put its Green Deal at the center of how it wishes to conduct itself economically, socially, and politically. The European Commission president Ursula von der Leyen put the EU Green Deal in a historic context by proclaiming, "This is Europe's man on the moon moment." The moon landing comparison might be under stating the scale of this undertaking. Looking at the scale, ambition, financial commitments and the aggressive timeline to deliver the EU Green Deal, Mission to Mars may be more appropriate.

For example, the Green Deal calls for EU mobilization of over 260 billion euros ($283 billion) every year for the next decade to build green infrastructure. That's not simply an Apollo program, it's an Apollo program every year of the next decade. And that's just for one pillar of the Green Deal.

The EU has committed to reaching net zero carbon emissions by 2050. This political will is backed up across the board by ambitious and timebound policy action.

The die has already been cast on the EU ESG policy agenda and it is likely to be a decade-defining issue for all asset managers operating in Europe.

Taxonomy Regulation

EU wide classification system which defines what may be considered an environmentally sustainable activity. Primarily aims to reduce Greenwashing, which is the practice of marketing financial products as green or sustainable when they do not meet basic environmental standards. The taxonomy sets out six environmental objectives and defines specific requirements which must be met to qualify as environmentally sustainable.

FINAL TAXONOMY: **Q4 2020**
REGULATORY TECHNICAL STANDARDS: **1 JUNE 2021**
EFFECTIVE: **DISCLOSURES DERIVED FROM TAXONOMY BY END OF 2022**

Disclosure Regulation

Introduces mandatory disclosure and transparency requirements in the form of website, pre-contractual, and subsequent periodic accounts disclosures. It applies at entity level and product level. Enshrines consideration of sustainability considerations into renumeration policies. Applies to all financial market participants including AIFMs, UCITS management companies, and self-managed investment companies.

REGULATORY TECHNICAL STANDARDS: **30 DECEMBER 2020**
GENERALLY EFFECTIVE: **10 MARCH 2021**
ANNUAL ACCOUNTS EFFECTIVE: **1 JANUARY 2022**

Benchmark Regulation

Amendment to existing Benchmark Regulation introduces two new types of sustainable benchmarks both of which are directly linked to commitments made in the Paris Agreement on carbon emissions. The new categories of benchmark are voluntary and designed to accommodate climate conscious investors who wish to invest in Paris Agreement aligned portfolios

1. The Climate Transition Benchmark: companies on a decarbonized trajectory towards alignment with the Paris Agreement objectives
2. The EU Paris-aligned Benchmark: companies whose carbon emissions are already aligned with the Paris Agreement object

BENCHMARKS ADMINISTRATORS: **30 APRIL 2020 (COVID-19 DEFERRED)**
BENCHMARKS AVAILABLE: **1 JANUARY 2022**

Integration into UCITS & AIFMD frameworks

The taxonomy, disclosures, and benchmark regulations have significant impacts to AIFMD and UCITS managers and their funds. There are disclosure requirements at both entity (management company) and at product level (AIF / UCITS). Obligations include assessing how sustainability risks are integrated in investment decision-making process, publication of sustainability risk policies, inclusion and publication of remuneration policies and integration of ESG criteria into policy. There are also "pre-contractual" disclosures in UCITS & AIFs prospectus on integration of sustainability risks and periodic disclosures through their annual financial statement's publication.

EFFECTIVE: **DEPENDS ON APPROVALS (12 MONTHS AND 20 DAYS AFTER LAWS PUBLISHED) ESTIMATED AUGUST 2021**

Review of Non-Financial Reporting Disclosures

EU is establishing law on disclosure of non-financial and diversity information by large companies (500 employees or more), including how they integrate ESG factors in their strategies and manage social and environmental risks. The work is ongoing, and focus is on information quality, standardization, assurances, digitization, and simplification.

FINAL RULES EXPECTED: **Q4 2020**

Green Bonds

The European Union is closing in on its first official Green Bond Standard (GBS), designed to help pave the way to net zero carbon emissions by 2050 in line with the EU Green Deal. The GBS is the first green bond standard linked to the EU Taxonomy.

EXPECTED FINALIZED: **Q3 2020**
EFFECTIVE: **Q1 2021**

MiFID II

ESG Integration into MiFID 2

Change to the MIFID Organizational Regulation which now requires firms providing investment advice and portfolio management to conduct a mandatory assessment of their clients' ESG preferences in a questionnaire. Pre contractual product disclosures related to ESG factors must be given to clients. A report must be given to existing retail clients to outline ESG considerations which must be considered within any investment recommendation.

EFFECTIVE: **DEPENDS ON APPROVALS (12 MONTHS AND 20 DAYS AFTER LAWS PUBLISHED) ESTIMATED AUGUST 2021**

EU Study on Short Termism

Three European Supervisory Authorities (ESAs) published recommendations for action on disclosure of ESG factors and investor engagement, covering issues from investment horizons, remuneration, investor engagement, and use of credit default swaps.

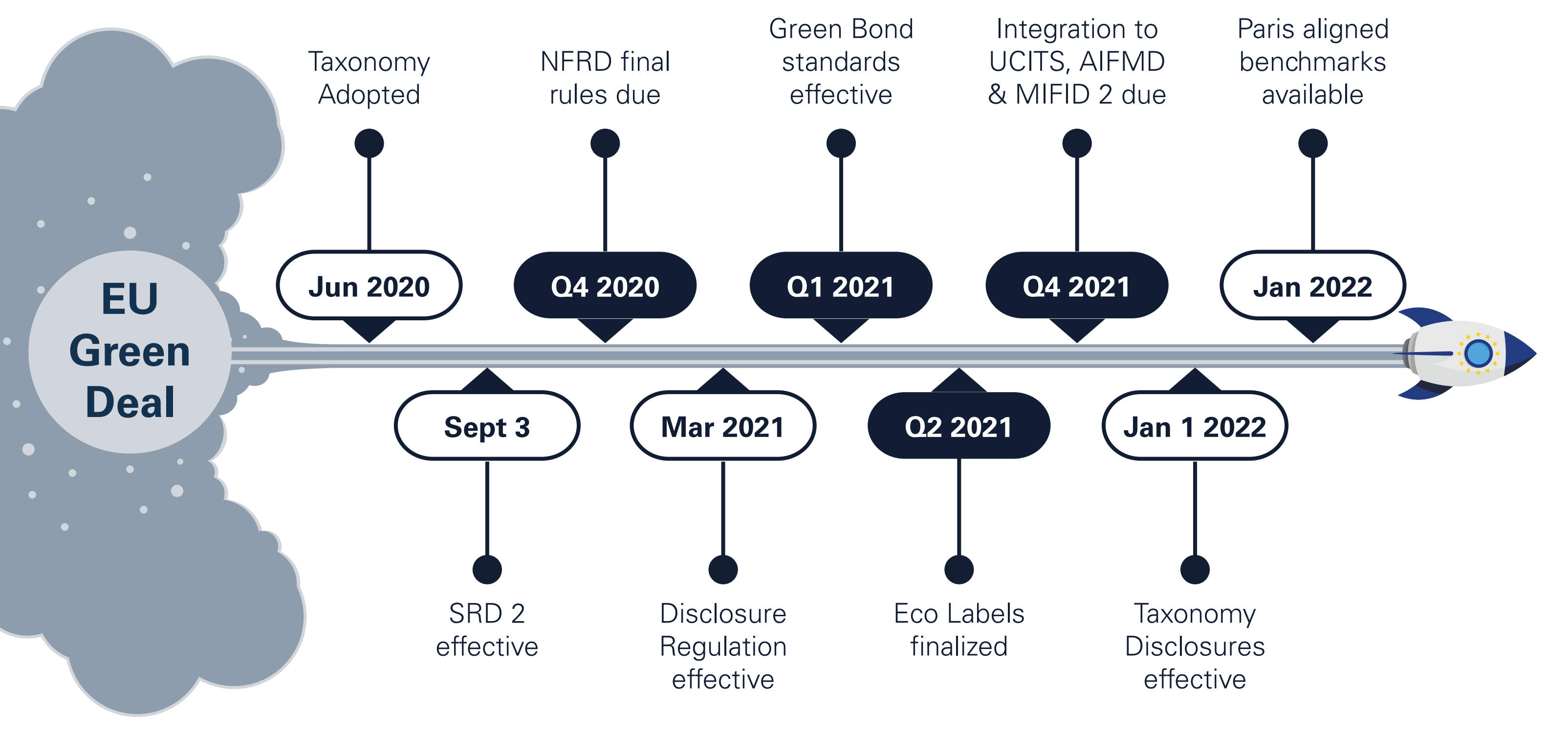
EU Eco-label for retail products

Establishment of mandatory criteria which must be met to be awarded with Ecolabel. The ecolabel will serve as a pan-European quality mark and attest to a product's compliance with ESG standards. The criteria include portfolio composition, engagement activity, and quality of disclosures.

FINAL CRITERIA: **Q1 2021**

Shareholder Rights Directive 2

The Shareholder Rights Directive 2 (SRD 2) aims to strengthen the position of shareholders to vote and effect change at companies they own shares in. It also aims to reduce short termism and excessive risk taking by companies by driving improved corporate governance in companies whose securities trade on EU regulated markets.



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