SRI

The challenge of transparency

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The views in this presentation are my own and do not necessarily represent those of the EC
Need for greater transparency
Focus on ratings

Credit ratings

• Unclear to what extent sustainability factors are being considered
• Need for greater understanding of and transparency

ESG ratings

• Market research providers and sustainability rating agencies have stepped up their efforts on ESG
• However, lack of broadly-accepted market standards
• Transparency of the methodology is crucial

corr(ESG ratings)=0.6  corr(credit ratings)=0.9

Disagreement explained

Scope 13%  Rater's definition of ESG
Weight 37%  Quality of companies' disclosures
Measurement 50%
Improving sustainability disclosure regulation

Review of Non-Financial Reporting Directive

- Adoption of legislative proposal in Q1 2021
- Under discussion:
  - whether and how to extend the scope
  - whether to introduce (voluntary) standards
  - whether to require higher detail

Taxonomy Regulation - Delegated Act on disclosure obligations (Art. 8)

- For NFRD financial and non-financial companies
- Adoption by June 2021
- Disclosures on CC mitigation and adaptation to be published in 2022 (covering FY2021)
- Disclosures on all objectives to be published in 2023 (covering FY2022)

SFDR Entity-level disclosures

- Apply as of March 2021
- Principal adverse impacts that investment decisions have on sustainability factors
- Statement on due diligence policies in relation to the broad sustainability dimension

Taxonomy Regulation - Amendments to Disclosure Regulation (SFDR)

- Disclosures based on Taxonomy for financial products that:
  - contribute to an environmental objective
  - promote environmental characteristics

CRR2 ESG disclosures

- Apply as of June 2022
### Engaging with investee companies

1. Ask larger investee companies about their **degree of Taxonomy-alignment**
   - Larger investors (under NFRD) will need to disclose themselves based on Taxonomy, before disclosures by investee companies are actually available
   - Larger investee companies will need to disclose this info anyway
   - It's their business

2. Going forward, **good stewardship**
   - Support them in their transition
   - The greener their business, the greener your business
A methodology to estimate Taxonomy-alignment
Alessi, Battiston, Melo and Roncoroni (2020)

- Proposed to estimate the green share of EU equity and bond mkts
- Can be applied to any portfolio, incl. lending
- Can be used whenever more granular info is not available
- Provides Taxonomy-alignment coefficients for all NACE sectors considered for CC mitigation
- Based on TEG report
- Updated coefficients will be released soon

### Taxonomy-aligned investment in EU capital mkt

<table>
<thead>
<tr>
<th>Sector</th>
<th>Bonds (€ bn)</th>
<th>Equities (€ bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>16.74</td>
<td>45.35</td>
</tr>
<tr>
<td>Energy Intensive</td>
<td>0.95</td>
<td>7.37</td>
</tr>
<tr>
<td>Transport</td>
<td>10.59</td>
<td>2.85</td>
</tr>
<tr>
<td>Utility</td>
<td>27.82</td>
<td>56.17</td>
</tr>
</tbody>
</table>

Note: Based on 2018 data.