

EL NUEVO DICCIONARIO EUROPEO PARA LAS FINANZAS VERDES

LA PIEDRA ANGULAR DE LA TRANSFORMACIÓN DEL SISTEMA FINANCIERO EUROPEO



HELENA VIÑES FIESTAS

Barcelona, Julio 2019



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ASSET MANAGEMENT

The asset manager for a changing world

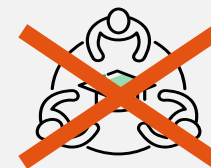
The taxonomy long-term benefits



Provides a definition of
environmental sustainability



Helps companies & issuers
Raise capital to finance their transition



Ends discussion on grey areas



Increases the money available
For the energy transition



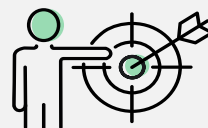
Creates a common language
That is simple and creates common
understanding btw public and private sector



Helps financiers to contribute
To the ecological transition



Helps discussion with clients
By increasing clients understandings of
environmental sustainability



Encourages companies to
become more sustainable
Sends a clear signal about climate targets



Saves time and work
Particularly for the financial institutions who
don't have the in-house staff



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1

WHAT IS THE EU TAXONOMY,



Taxonomy: in a nutshell

What it is



A list of economic activities that are considered environmentally sustainable for investment purposes

What it is not



A mandatory list to invest in, nor a standard, nor an exclusion list

Why it is good

- Contributes to providing much needed investments for sustainable development
- Taxonomy provides clarity and transparency on environmental sustainability, enabling informed decision-making in order to foster investments in environmentally sustainable activities.

What it has to be used for

- Member States when setting out “requirements on market actors in respect of financial products or corporate bonds that are marketed as 'environmentally sustainable'”;
- Financial market participants when marketing “financial products as environmentally sustainable investments, or as investments having similar characteristics”

Taxonomy: High-level principles

ENVIRONMENTAL OBJECTIVES PROPOSED TO BE ASSESSED BY THE FRAMEWORK OF THE EU TAXONOMY REGULATION:

1. **Climate Change Mitigation**
2. **Climate Change Adaptation**
3. Sustainable Use and Protection Of Water and Marine Resources
4. Transition to a Circular Economy, Waste Prevention and Recycling
5. Pollution Prevention and Control
6. Protection Of Healthy Ecosystems

REQUIRED: DETERMINE A LIST OF ENVIRONMENTALLY SUSTAINABLE ECONOMIC ACTIVITIES THAT:

- Contribute Substantially to a Given Environmental Objective
- Not Significantly Harm Any of the Other 5 Environmental Objectives
- Carried Out With Minimum Safeguards – Labour Rights
- Include Technical Screening Criteria (Methodologies, Metrics, Thresholds)

2

THE USE OF THE TAXONOMY

BNP Paribas Asset management committed to monitor and report on their % invested in green activities (following the EU Taxonomy wherever possible) as a total % of AUM (Global Sustainability Strategy)



The uses and the users

| Uses and users of the Taxonomy | | |
|---|---|--|
| | Disclosure obligations | Optional additional uses |
| Pensions and Asset Management | <ul style="list-style-type: none"> • UCITS funds: <ul style="list-style-type: none"> • equity funds; • exchange-traded funds (ETFs); • bond funds • Alternative Investment Funds (AIFs): <ul style="list-style-type: none"> • fund of funds; • real estate funds; • private equity or SME loan funds; • venture capital funds; • infrastructure funds; • Portfolio management. | |
| Insurance | <ul style="list-style-type: none"> • Insurance-based investment products (IBIP) | <ul style="list-style-type: none"> • Insurance |
| Corporate & Investment Banking | <ul style="list-style-type: none"> • Securitisation funds* • Venture capital and private equity funds • Portfolio Management • Indices funds | <ul style="list-style-type: none"> • Securitisation • Venture capital and private equity • Indices • Project finance and corporate financing |
| Retail banking | | <ul style="list-style-type: none"> • Mortgages • Commercial building loans • Car loans • Home equity loans |

The use of the Taxonomy

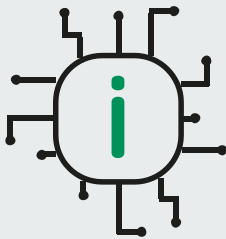
- For each relevant fund, **investors would disclose the percentage of holdings that are in companies carrying out Taxonomy-eligible activities (or that would eligible under an alternative methodology) and the percentage of investments made that finance those activities.**
- This disclosure obligation is intended to align with the requirements of the recently *approved Regulation on Disclosures Relating to Sustainability Risks and Sustainable Investments*.
 - Under this regulation, which was approved in May 2019, financial market participants who offer a fund targeting sustainability objectives must disclose what these objectives are and the methodologies used to assess, measure and monitor progress against these objectives, as well as an assessment of the overall sustainability-related impact of the financial product.
- It is important to note that the Taxonomy regulation does not establish a standard or label for investment products, and hence there are no minimum thresholds for the share of sustainable activities at company or at portfolio-level under the proposed Taxonomy regulation.
- The future voluntary Ecolabel for financial products that is currently under development would establish thresholds at holding and/or portfolio level.
- Importantly, the Taxonomy is not mandatory for investments and investors would be free to explain their alternative methodologies in their disclosures.

EU Taxonomy uses

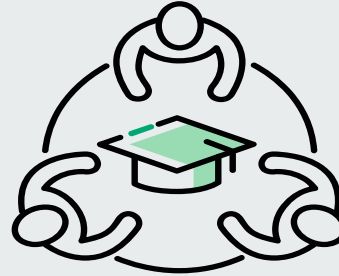
What the taxonomy can be used for



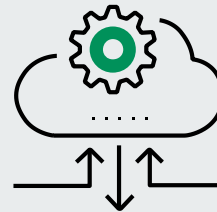
To design and constructed my green portfolios



To asses and calculate the green share of my portfolios, my investments by asset class and of my total AUM



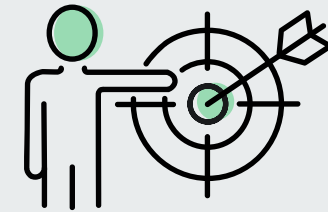
The EU taxonomy is THE dictionary of what is green, what is transitioning and what is not green. It will “unblock” existing hurdles for the green finance market to grow and will benefit from the entire EU policy package



To develop new green financial products. The biggest potential lies in debt/lending that allow ring-fencing



To assess my exposure to brown investments



To focus our engagements with companies, harmonise messaging and improve environmental disclosures

Main challenge: the lack of reliable and meaningful data

The main challenge for using the Taxonomy is the lack of comparable and reliable (complete) data



Yet, the EU taxonomy is a major incentive for improving environmental reporting

- The Climate-related Disclosures Upgraded Guidelines ought to become mandatory.
- Mandatory reporting guidelines A PRIORITY for investors
- Big political chance for some key data points to become mandatory
- There will be huge investor pressure but also from Investment Bankers



3

THE IMPLICATIONS



The Taxonomy: a dictionary

| | |
|---------------------------|--|
| Climate mitigation | <ul style="list-style-type: none">• 67 activities that can make a <i>Substantial Contribution</i> to mitigation objectives• All with <i>Do No Significant Harm</i> assessments (Water, Circular Economy, Biodiversity, Pollution) |
| Climate adaptation | <ul style="list-style-type: none">• A methodology + examples for <i>Substantial Contribution</i> to adaptation objective• A methodology for <i>Do No Significant Harm</i> to adaptation objective |

Climate mitigation – supporting economic transition

| Type of activity | Characteristics | Description | Criteria | Examples |
|---|-----------------|--|--|--|
| Low carbon activities | Greening of | Already low carbon (very low, zero or net negative emissions). Compatible with net zero carbon economy by 2050 | Likely to be stable and long term | <ul style="list-style-type: none"> • Zero to 25g/kwh electricity generation; • nearly zero energy buildings; • zero emissions cars |
| Activities that contribute to transition | Greening of | Contribute to a transition to a zero net emissions economy in 2050 or shortly thereafter, but are not currently close to a net zero carbon emission level; | Likely to be revised regularly; be tightened over time; eventually to zero. | <ul style="list-style-type: none"> • Building renovation; • 25-100gCO₂e/kWh electricity generation; • Aluminium production below 2.9tCO₂e/t; • Road transport vehicles up to 50g/km; • Bundle of agriculture practices. |
| Enabling activities | Greening by | Activities that enable emission reductions in the above. | Some likely to be stable and long term, some likely to be revised regularly. | <ul style="list-style-type: none"> • Manufacture of wind turbines, • Installing efficient boilers in buildings; |

Aluminium producers' carbon performance versus the benchmarks

| Company | Emissions intensity of aluminium production (t CO ₂ e / t aluminium) | | | | | | | |
|-----------------|--|-------|-----------------|-------|----------------------------|------|-------------|------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2020 | 2025 | 2030 |
| Alcoa | | | 6.31 | 5.47 | 5.20 | 5.25 | 5.35 | 5.09 |
| Alumina | 21.27 | 20.70 | 19.90 | 19.41 | 17.06 | | | |
| Chalco | No data | | | | | | | |
| Norsk Hydro | 3.31 | 3.46 | 3.45 | 3.35 | 3.34 | | | |
| Press Metal | No data | | | | | | | |
| UACJ | No data | | | | | | | |
| UC Rusal | | 7.56 | 7.81 | 7.70 | 6.94 | 6.93 | 6.90 | |
| South32 | No data | | | | | | | |
| Rio Tinto | | 5.71 | 5.18 | 4.80 | 4.59 | | | |
| Below 2 Degrees | | 6.34 | 6.13 | 5.92 | 5.70 | 5.07 | 4.00 | 3.07 |
| 2 Degrees | | 6.34 | 6.16 | 5.98 | 5.80 | 5.26 | 4.35 | 3.14 |
| Paris Pledges | | 6.34 | 6.22 | 6.10 | 5.98 | 5.61 | 5.01 | 4.35 |
| Key | Aligned with below 2C | | Aligned with 2C | | Aligned with Paris Pledges | | Not aligned | |

Debt and lending-related products: the big winners



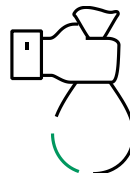
Aluminium company
Not compliant
(tCO2/t > 2.9)



Asks for green loan or
to issue a green bond
to reduce carbon
intensity of its facility



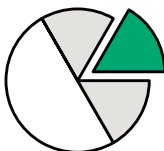
Bank will demand
necessary data



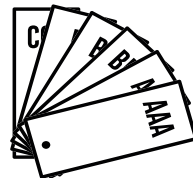
If reduction objectives meet
taxonomy thresholds, the loan or
bond can be marketed as taxonomy
compliant



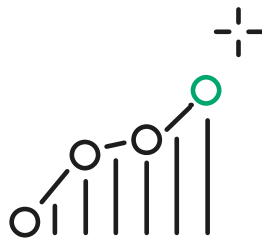
Project to reduce emissions is
successful



Revenues from installation
become taxonomy-compliant



Green loans securitised
Fund, or
EU Green Bond Standard



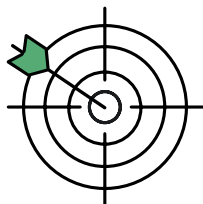
Bank sells to investors who
have to report on their green
shares of taxonomy-compliant
investments

What we know

Transition Period



Lack of data availability
Adapt internal processes
Role of data providers
Rest of taxonomy by 2022
Guidelines on how to report



The taxonomy expands the investment universe as it includes transitioning activities e.g. aluminium or cement



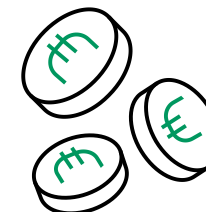
Taxonomy will be the base for the coming Ecolabel (2020), the EU Green Bond Standard and for all standards and labels at national level set on green investments



Traditionally believed green activities will be scrutinised. Criteria for some activities are stricter



Some countries are very keen in following the same steps, and endorsing an “adapted version of the taxonomy



The greatest opportunities lie in debt and lending-related products that allow to ring-fence funding



EC budget, EIB investments and other governmental-driven investments – particularly in infrastructure – will use the taxonomy



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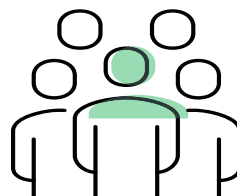
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What we don't know yet

Platform on Sustainable Finance



The governance
The exact role and
competences
The composition
How independent it will be



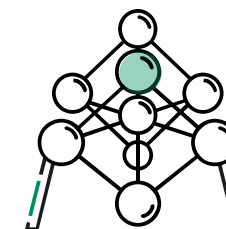
It is under discussion of whether or not there will be a “penalising brown factor” or a “green supporting factor” based on the taxonomy



How will the Taxonomy impact green indices and the Paris Aligned Benchmark and how it will impact existing labels and bonds (e.g. Green Luxflag and Greenfin)



The legal text is still under negotiation, many questions remained unanswered



How exactly will the market re-act to Brussels, and how will be the non-European market respond

4

ONLY ONE PIECE OF THE JIGSAW



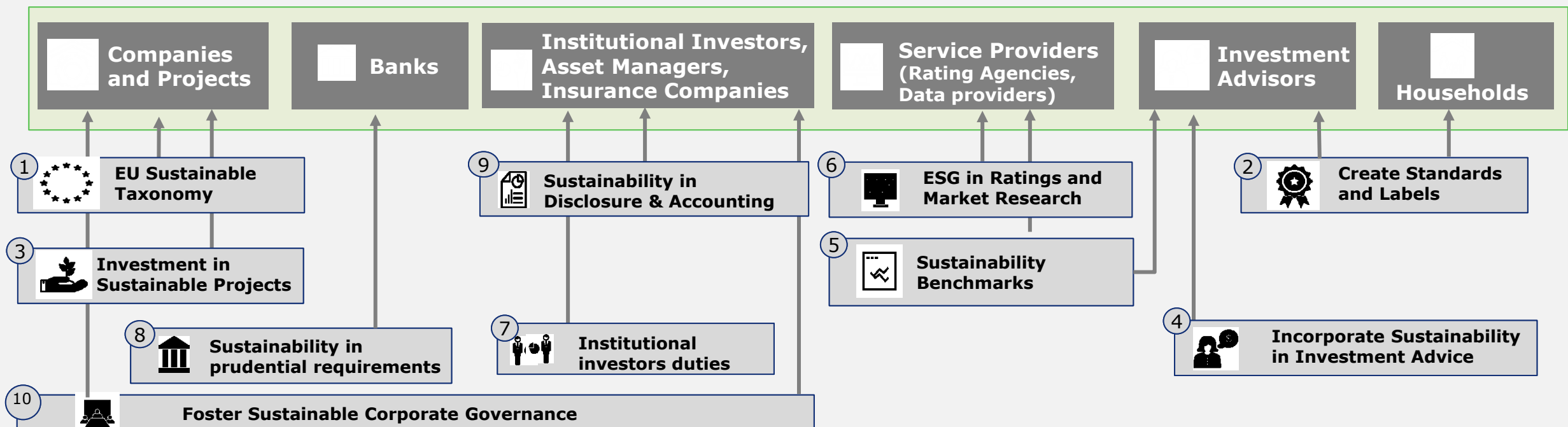
Sustainable Finance in EU Sustainability policies



Sustainable Finance is one of the EU Sustainability Policy Pillars

Action Plan on Financing Sustainable Growth

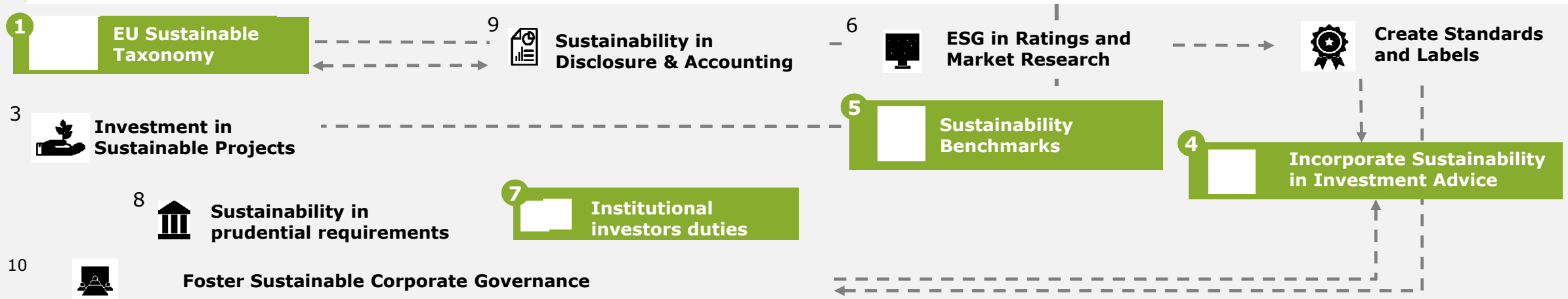
Mapping and links of the 10 actions along the investment chain



The legislative proposals

The most urgent actions from the AP were taken forward as legislative proposals in May 2018

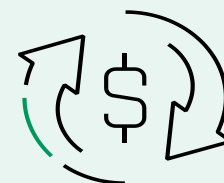
Mapping and links of the 10 Actions - Actions in implementation in green



Corporate and investor mandatory disclosures

NFRD Guidelines

- Double focus: outside-in (TCFD) and inside-out (NFRD) companies can show their contribution towards policy
- Taxonomy and Green Bonds related disclosures
- Special supplement for banks and insurers
- Scenario analysis and pathways



Sustainability Risks:
Part A (financial sustainability risks) +
Part B (non-financial sustainability risks, that is to the environment and to society)

Provisional (yet final) Agreement of March 7th 2019

- Integration of sustainability risks
- Sustainable Investments
- Adverse impacts
- Scope: firm-level and product-level; financial market participants and financial advisers.

Integrating ESG into Investment Advice

ESG considerations in investment and insurance advice through amendments to Delegated Acts under the Markets in Financial Instruments and the Insurance Distribution Directives

- EC called for technical advices to EIOPA and ESMA on the integration of sustainability risks and factors
- Consultation papers published and consultations ended (BNPP AM responded to both)
- Two extreme schools of thought: ESG + non-ESG vs. only *Ecolabelled* funds (BNPP AM: Thematic + ESG ‘general’ only)

Benchmarks regulation

The amending regulation sets high ambitions by introducing:

1

Two climate benchmarks aimed at reallocating capital towards a low-carbon and climate resilient economy

2

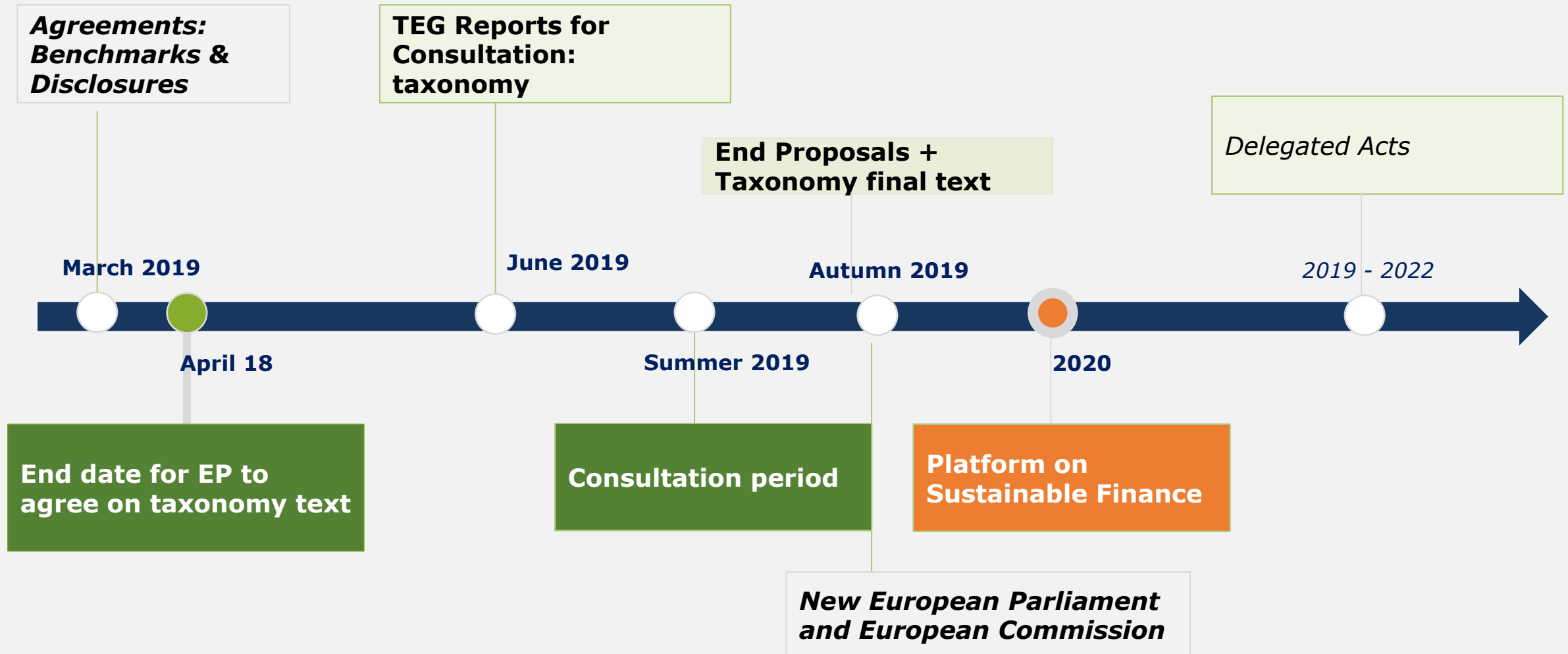
Disclosures for all benchmarks – except interest rate and currency benchmarks - against which trillion euros in assets are managed, that will provide clarity on the ESG profile and the degree of alignment with the decarbonization goals of the Paris Climate Agreement



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EU Timeline Sustainable Finance

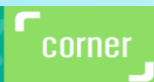


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