ESG update

EU Taxonomy and more

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SCHJØDT

AGENDA

1. EU Sustainable finance – the market mover
2. Taxonomy and potential implications for the debt capital market

1. EU SUSTAINABLE FINANCE – THE MARKET MOVER

2019 – THE ESG BOOM YEAR IN NORWAY?

- 2019 – ESG «exploded» in the media.
- Green loans, green bonds etc.
- Discount on NOK and oil-shares?
- Climate risk disclosure.
- Much talk of green investments but no clear or common concept
  - The core of the taxonomy initiative: investor confusion as to what is green may hinder necessary reallocation of capital.
- EU financial action plan – ambitious plan to stimulate reallocation of capital

EU SUSTAINABLE FINANCE

- The European Commission established a “High-level expert group on sustainable finance” in 2016. It delivered its final report in January 2018, which formed the basis for the “Action Plan on sustainable finance presented by the Commission in March 2018.
- After that, several measures implementing key actions announced in the Action Plan has been presented.

Major **investments are needed to transform the EU economy** to deliver on climate, environmental and social sustainability goals, including the Paris Agreement and the UN Sustainable Development Goals.

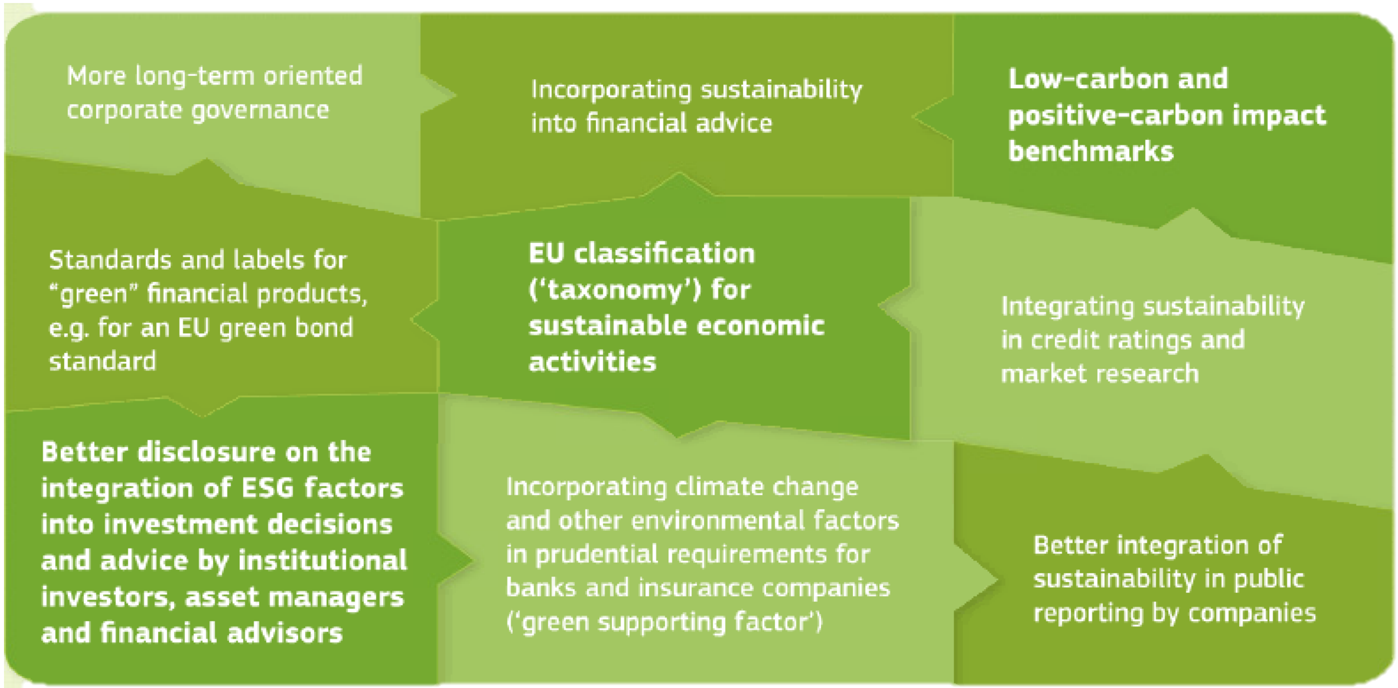
Sustainable finance makes sustainability considerations part of financial decision-making. This means more low-carbon, energy- and resource-efficient circular projects.

Integrating sustainability considerations will mitigate the impact of natural disasters as well as environmental and social sustainability issues that can affect the economy and financial markets.

EU GREEN DEAL INVESTMENT PLAN

- Was presented 14 January 2020. It is stated:
  - *"The European Green Deal Investment Plan will mobilise EU funding and create an enabling framework to facilitate and stimulate the public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy. Complementing other initiatives announced under the Green Deal, the Plan is based on three dimensions:*
    - *Financing:* ***mobilising at least €1 trillion of sustainable investments over the next decade.*** *A greater share of spending on climate and environmental action from the EU budget than ever before will crowd in private funding, with a key role to be played by the European Investment Bank.*
    - *Enabling: providing incentives to unlock and redirect public and private investment.* ***The EU will provide tools for investors by putting sustainable finance at the heart of the financial system, and will facilitate sustainable investment by public authorities by encouraging green budgeting and procurement****, and by designing ways to facilitate procedures to approve State Aid for just transition regions.*
    - *Practical support: the Commission will provide support to public authorities and project promoters in planning, designing and executing sustainable projects."*

EU SUSTAINABLE FINANCE – OVERVIEW



EU SUSTAINABLE FINANCE – DISCLOSURE AND TRANSPARENCY

- Regulation (EU) 2019/2088 (the disclosure regulation) has been adopted, and enters into force in the EU 10 March 2021.
- Aim to reduce information asymmetries, integrate sustainability risks, avoid adverse sustainability impacts and promote environmental or social characteristics and sustainable investment,
- Requires financial market participants and financial advisers to provide contractual and ongoing disclosures to investors when acting as agents of those end investors (principals).
- Covers insurance undertakings, investment firms, AIFMs, credit instructions, UCITS etc.
- Sustainability transparency requirements with regards to inter alia, website disclosure, remuneration policies, pre-contractual disclosures and periodic reports.

EU GREEN BOND STANDARD

- Draft report by TEG in June 2019. Final report expected in March 2020.
- Voluntary standard.
- EU Green Bond is any type of listed or unlisted bond or capital market debt instrument with European or international issuer aligned with the EU-GBS by meeting the following requirements:
    a. Issuer's Green Bond Framework shall confirm the alignment with the EU-GBS;
    b. Proceeds or an amount equal to such proceeds shall be exclusively used to finance or re-finance new and/or existing Green Projects as per bond documentation.
    c. Definition of «Green Projects» is directly linked to the taxonomy.
    d. Alignment with the EU-GBS shall have been verified by an accredited verifier.
- Use of 'EU Green Bond' only if above criteria are met.
- Issuers may voluntarily requalify existing bonds as EU Green Bonds in same manner including accredited verifier.

3. TAXONOMY AND POTENTIAL IMPLICATIONS FOR THE DEBT CAPITAL MARKET

TAXONOMY

- Classification tool to help investors and companies make informed investment decisions on “environmentally friendly economic activities”.
- The most important and urgent action envisaged by the Action Plan.
- Political agreement reached on 18 December 2019.
- Current primary focus is environmental. What about “S” and “G”?
- Supplements the Disclosure Regulation.

ENVIRONMENTALLY FRIENDLY ECONOMIC ACTIVITY

- Four requirements needs to be complied with as per article 3:
  1. It contributes substantially to one or more of the six environmental objectives:
     a) Climate Change Mitigation
     b) Climate Change Adaptation
     c) Sustainable Use and Protection of Water and Marine Resources
     d) Transition to a Circular Economy
     e) Pollution Prevention and Control
     f) Protection and Restoration of Biodiversity and Ecosystems
  2. It does not significantly harm any of the other environmental objectives;
  3. It complies with science-based technical screening criteria; and
  4. It is carried out in compliance with minimum social and governance safeguards.

SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION

- Pursuant to article 6:
  - *"An economic activity shall be considered to contribute substantially to climate change mitigation where that activity substantially contributes to the stabilization of greenhouse gas concentrations in the atmosphere at a level which prevents dangerous anthropogenic interference with the climate system by avoiding or reducing greenhouse gas emissions or enhancing greenhouse gas removals through any of the following means, including through process or product innovation, consistent with the long term temperature goal of the Paris Agreement…"*
  - *For the purposes of paragraph 1, an economic activity for which there is no technologically and economically feasible low carbon alternative, shall be considered to contribute substantially to climate change mitigation as it supports the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels including by phasing out greenhouse gas emissions, in particular from solid fossil fuels, where that activity:*

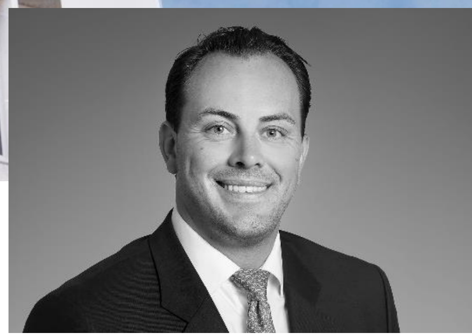
    (i) has greenhouse gas emission levels that correspond to the best performance in the sector or industry;

    (ii) does not hamper the development and deployment of low-carbon alternatives; and

    (iii) does not lead to a lock-in in carbon-intensive assets considering the economic lifetime of those assets."

LEGAL FUTURE – AND PRESENT

- Taxonomy: Binary or «shades of green»?
  - The fossile energy sector and the future of the sustainability linked financing
- No place to hide anymore – started 2019?
  - Disclosure duty for issuers upon taxonomy implementation
  - Pre-taxonomy disclosure necessary to attract capital and serve asset managers under transparency obligations – brown or blank at a cost
- Sustainability Reports and "footprint" guidance
  - IFRS, accounting laws and the Not So Silent Spring
  - Misrepresentation and liability
  - ESG information as the new inside information
  - Climate risk and asset depreciation – the Second Last Waltz on the Titanic?



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