Sustainable Finance in Europe: Regulatory State of Play

Key impacts for banks and capital markets

March 2023

Updated edition

Association for Financial Markets in Europe
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Disclaimer

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Foreword

The progress with the development of the European sustainable finance regulatory framework hasn't shown signs of slowing down since the publication of our report "Sustainable Finance in Europe: Regulatory State of Play". The rapid rate of change, combined with the overwhelmingly positive feedback received from stakeholders, encouraged us to renew AFME's partnership with Linklaters and publish an update of the report for 2023.

This report reviews the latest developments and their impact on banks and capital markets, providing a practical guide to the wide range of initiatives in Europe. Notably, several pieces of regulation have now entered into force or are in the process of implementation and we have seen important initiatives being announced in the UK, such as the proposal for new Sustainability Disclosure Requirements and investment labels and the launch of the Transition Plan Taskforce.

Five years have passed since the launch of the EU Action Plan on Financing Sustainable Growth, and most of the building blocks of the EU framework are now in place. Firms are implementing the EU Taxonomy Regulation, relying on extensive guidance on data and usability, as a tool for screening economic activities as well as increasing transparency. Meeting the reporting requirements in the Taxonomy, Pillar III and the Sustainable Finance Disclosures Regulation remains a challenge, but the development of EU and international sustainability reporting standards, and the upcoming implementation of the Corporate Sustainability Reporting Directive, can improve the availability of reliable and comparable ESG information in the near future.

Not all of the pieces of the puzzle are in place yet. For some initiatives, balancing ambition and effectiveness has proven difficult for policymakers. We hope, in 2023, to see progress with the finalisation of EU and ISSB sustainability reporting standards, establishment of a credible, voluntary EU Green Bond Standard to foster trust in the market, the finalisation of technical screening criteria for other environmental objectives under the EU Taxonomy, publication of the TPT and TNFD disclosure frameworks, as well as effective and practical measures to strengthen due diligence practices against human rights abuses and environmental harm. Further initiatives are on the horizon, including possible measures to increase transparency in the methodologies used by the third-party providers of ESG data and ratings and an Updated Green Finance Strategy from the UK government.

"The progress with the development of the European sustainable finance regulatory framework hasn't shown signs of slowing down"

Firms continue to strengthen their efforts to meet the requirements, while promoting sustainable issuance and developing new solutions to harness market demand. Throughout 2022, our research has found that European ESG bond and loan issuance withstood the turbulent market conditions. Besides providing a detailed overview of the European sustainable finance landscape, the aim of AFME's Regulatory State of Play becomes twofold: to facilitate our members' implementation efforts, and to help policymakers identify the gaps and shortcomings that have emerged in a complicate puzzle of initiatives. AFME has also recently contributed to these efforts with practical support on how compliance functions can support firms in robustly and transparently managing ESG regulatory risks – finding that the lack of universal definitions for ESG risks is one of the key challenges.

Our aim is to ensure that the framework is coherent and consistent, particularly as many aspects are complex and interconnected, to mitigate these challenges and enable our members' role in financing the transition to a sustainable economy. We do so with our submissions, thought leadership, as well as by providing a forum for discussion in our committees and at our upcoming conference.

Looking ahead, key themes will include international interoperability, transition finance and biodiversity. The development of an effective transition finance framework is a key priority to mobilise financing at scale. Such framework could be underpinned by measurable, science-based transition milestones for specific sectors in the real economy, alongside principles for designing credible transition plans to enhance accountability. Meanwhile, we have published a report highlighting that nature may be the next frontier for capital markets, and explored how finance can be channelled to protect nature and restore biodiversity loss.

I would like to thank Linklaters, our members and my colleagues for their work on this report and hope that you find it useful.

Oliver Moullin
Managing Director, Sustainable Finance and General Counsel
Association for Financial Markets in Europe

"The development of an effective transition finance framework is a key priority to mobilise financing at scale"

Introduction

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 guide is intended to act as a practical roadmap for AFME members by providing them with a snapshot of the main sustainable finance ("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.

This guide was first published in November 2021 but has now been updated to reflect the developments that have occurred since then.

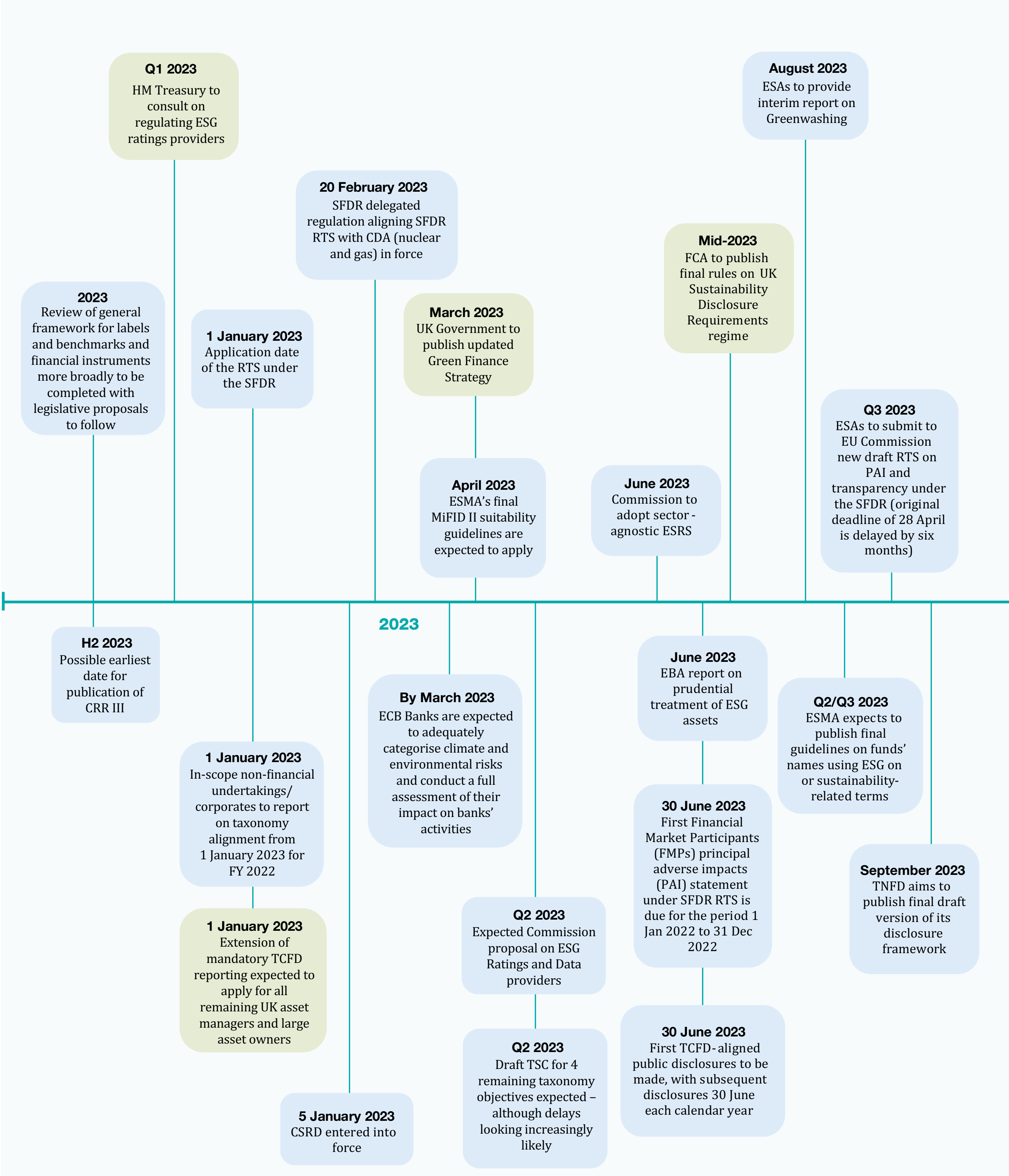
Scope

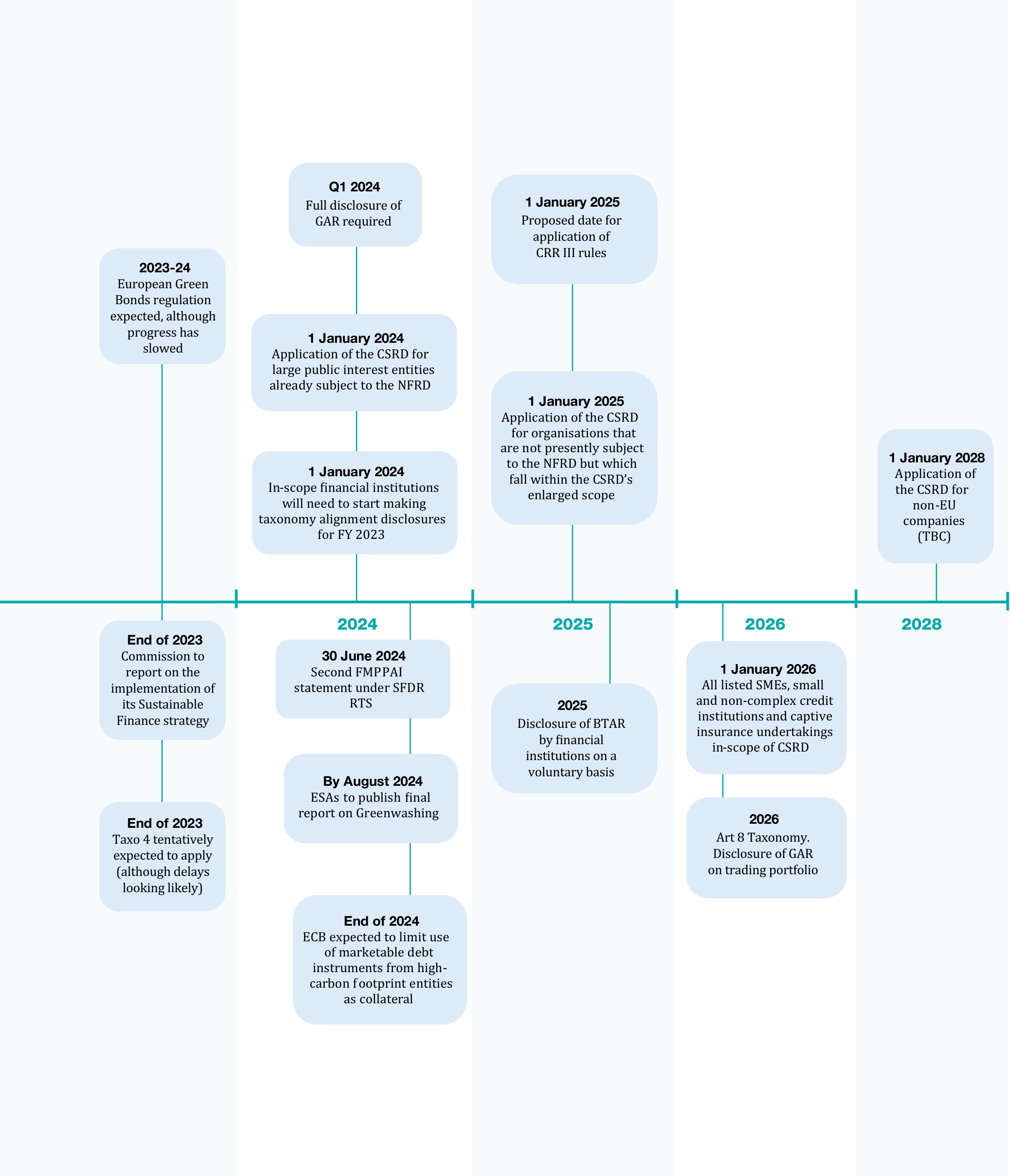
In this guide, we only address developments which are explicitly concerned with SF. Many areas of regulation, for example the market abuse regime, will be impacted by and adapt to the new products and new risks arising in this area. We do not include these developments but instead limit the scope of this guide to new regimes expressly developed for SF. 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). Other industry associations are of course focussing on those developments that pertain to their product and business-areas.

In terms of geography, as mentioned at the outset, this guide is limited to the umbrella developments occurring in the EU, to the 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.

Sustainable Finance in Europe: Regulatory State of Play

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




2023-24
European Green Bonds regulation expected, although progress has slowed
End of 2023
Commission to report on the implementation of its Sustainable Finance strategy
End of 2023
Taxo 4 tentatively expected to apply (although delays looking likely)
Q1 2024
Full disclosure of GAR required
1 January 2024
Application of the CSRD for large public interest entities already subject to the NFRD
1 January 2024
In-scope financial institutions will need to start making taxonomy alignment disclosures for FY 2023
2024
30 June 2024
Second FMP PAI statement under SFDR RTS
By August 2024
ESAs to publish final report on Greenwashing
End of 2024
ECB expected to limit use of marketable debt instruments from high-carbon footprint entities as collateral
1 January 2025
Proposed date for application of CRR III rules
1 January 2025
Application of the CSRD for organisations that are not presently subject to the NFRD but which fall within the CSRD's enlarged scope
2025
2025
Disclosure of BTAR by financial institutions on a voluntary basis
2026
1 January 2026
All listed SMEs, small and non-complex credit institutions and captive insurance undertakings in-scope of CSRD
2026
Art 8 Taxonomy. Disclosure of GAR on trading portfolio
1 January 2028
Application of the CSRD for non-EU companies (TBC)
2028

Item	Initiative and description of key policy objectives	Key actions for AFME members
General: the sustainable finance landscape		
The sustainable finance ('SF') landscape encompasses the regulatory, legislative and policy context of transitioning towards a sustainable economy supported by the development of SF initiatives. 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 SF strategy.		
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. On 15 December 2021, the second suite of legislative and policy proposals were published. These include proposals in relation to: • gas and hydrogen • methane emissions from oil, gas and coal assets • energy performance of buildings.	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
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, customers 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 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. The Commission will report on the Strategy's implementation by the end of 2023.	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

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 SDRs 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 ('TSC') 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.
UK Update to Green Finance Strategy: Call for Evidence	The 2019 Green Finance Strategy sets out the UK Government's "comprehensive approach to greening financial systems, mobilising finance for clean and resilient growth, and capturing the resulting opportunities for the UK". In May 2022, the UK government issued a consultation seeking views and evidence from stakeholders to support the government in developing an update to the Green Finance Strategy, originally planned for publication in late 2022. An update to the UK's Green Finance Strategy, building on the responses to the Call for Evidence, is expected to be published in early 2023 (and will include an update on the UK's approach to its Green Taxonomy).	TBC

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The roadmap was announced on 18 October by Rishi Sunak. The SDR final rules are expected in mid 2023. As for the UK Green Taxonomy, Treasury has announced that the UK is rethinking its approach. We expect to hear more on this in the UK's Green Finance Strategy, (tentatively) expected around March 2023 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.
The government has announced its intention to publish an update to the UK's Green Finance Strategy, in early 2023 (tentatively, March).	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	UK

Item	Initiative and description of key policy objectives	Key actions for AFME members
Call for Evidence into UK Government's Net Zero review **and** **Mission Zero: Independent review of Net Zero**	The UK government has announced a "rapid" independent review of how best to meet the UK's legally-binding climate target of net zero by 2050 in a way that grows the economy and does not place undue burdens on businesses or consumers. The review has been commissioned by the Department for Business, Energy & Industrial Strategy (BEIS). The call for evidence, published on 29 September, includes questions such as: • what challenges and obstacles have you identified to decarbonisation; • what opportunities are there for new/amended measures to stimulate or facilitate the transition to net zero in a way that is pro-growth and/or pro-business; and • what more could the government do to support businesses and consumers to decarbonise? The results of the independent review were published in January. This concludes with a range of recommendations including in relation to the need to create a stable environment for investment in assets that are working towards net zero.	TBC
FCA Discussion Paper 23/1: Finance for positive sustainable gain	In February, FCA published DP 23/1 inviting views from regulated firms across the financial sector with the aim of encouraging an "industry-wide dialogue on firms' sustainability-related governance, incentives, and competencies". The FCA is seeking views on how it can move most effectively beyond disclosure-based initiatives. Firms are encouraged to reflect on the matters discussed, and consider, as appropriate, incorporating them as they review and refine their current approaches to governance, remuneration, incentives and training. The FCA aims to highlight good, evolving practices so that finance can deliver on its potential to drive positive sustainable change.	TBC, depending on outcomes and policy/rule development following the discussion paper. FCA has said that following feedback to the DP, it will consider how best to support the industry in the evolving field, and whether there is a case for further regulatory measures.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The call for evidence closed **on 27 October.** On 13 January the review, with its recommendations, was published.	TBC	TBC	UK
Period for comment ends 10 May 2023. Whether there will be further rules and the timing for those will depend on response to the DP and FCA's further work in this area.	TBC	TBC	UK

Item	Initiative and description of key policy objectives	Key actions for AFME members
Taxonomies		
With the starting point being the "environmental" aspect of ESG, the first step in developing a SF 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.		
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	• 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 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 January 2023 (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
As in many areas of SF, 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 SF 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.			
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 (although the Complementary Delegated Act with TSCs for nuclear energy and natural gas takes effect from 1 January 2023 (having come into force on 4 August 2022). However, a number of NGOs have asked the Commission to review the inclusion of natural gas and nuclear in the Delegated Act, and Austria has commenced legal proceedings against the Commission for inclusion of nuclear energy and natural gas in the taxonomy. It remains to be seen whether the various requests for internal review and the legal challenges will result in any changes to the EU green taxonomy (see further below). A delegated act for the other four environmental objectives (the Environmental Delegated Act) is delayed; the PSF published its final recommendations on the four TSCs in March 2022, as well as reports on Minimum Safeguards and Data and Usability in October 2022, and the Commission now needs to take these into consideration and adopt a delegated act. The Environmental Delegated Act was expected to be adopted by the end of 2022 in time for a 1 January 2023 application date. But given there has still been no consultation on a draft delegated act, adoption and subsequent application will be delayed. We tentatively expect the draft in March 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.

Item	Initiative and description of key policy objectives	Key actions for AFME members
EU Taxonomy Regulation (Level 1) (continued)	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 2022; • 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, as its application is phased in, the scope will be expanded to cover a wider range of entities under the 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.	
PSF Report on Minimum Safeguards	In the Taxonomy Regulation, for an economic activity to be sustainable. It must comply with certain minimum safeguards (Article 3). In October 2022, the PSF published its final report on what it means to have met the "minimum safeguards" threshold. This followed the publication of its draft report in July. The report indicates that alignment with the minimum safeguards should be assessed by reference to four topics: i. human rights, including labour rights; ii. bribery and corruption; iii. taxation; and iv. fair competition with the latter three stemming from chapters in the OECD Guidelines. Assessment of each of these topics is split between a procedural element and an outcome element. In contrast to the EU Taxonomy itself, which operates at economic activity level, the PSF report appears to suggest minimum safeguard alignment be looked at from an entity perspective.	TBC. Commission's approach to minimum safeguards approach will need to be reflected in how AFME members' determine their Taxonomy alignment.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The Final Report now needs to be considered by the Commission, which is not bound by the PSF's recommendations. There is no indication as yet when we can expect to hear from the Commission on this.	TBC – may impact how Taxonomy alignment is determined depending on Commission approach	TBC	EU

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). In December the Commission published a draft FAQ containing technical clarifications on the technical screening criteria set out in the Climate Delegated Act. Formal adoption will follow the legal-linguist review, currently underway.	See row above

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The DA has applied from 1 January 2022 (although the Complementary Delegated Act which amends the DA with TSCs for nuclear energy and natural gas applies from 1 January 2023).	See row above	See row above	EU

Item	Initiative and description of key policy objectives	Key actions for AFME members
Complementary Delegated Act with TSC for nuclear power and natural gas	On 2 February 2022, the Commission approved in principle a Complementary Delegated Act including, under certain conditions, nuclear and gas energy activities in the list of economic activities covered by the EU Taxonomy. The Complementary DA is accompanied by: • Three annexes (Annex 1, Annex 2 and Annex 3); • Q&A on the inclusion of nuclear and natural gas in the Taxonomy – this explains the Commission's rationale in more detail; and • FAQ to clarify the content of the Article 8 Disclosures Delegated Act – this supplements the Article 8 Disclosures FAQ that was published in December 2021. The Complementary Delegated Act amends the Climate Delegated Act and Article 8 Taxonomy Disclosures Delegated Act, both of which were published in the Official Journal in December 2021. The Commission says it has tweaked the technical screening criteria (rather than doing any major rewrites) from the version it sent to the Platform on Sustainable Finance and the Member States Expert Group on Sustainable Finance for internal consultation in January 2022. In particular, the Complementary DA sets out the criteria subject to which certain nuclear and gas activities can be classified as "transitional" activities to those already covered by the Climate Delegated Act. Given the politically highly sensitive nature of natural gas and nuclear power, this Delegated Act has been subject to significant delay and disagreement – see "Key Milestones" for next steps.	See row above

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
On 15 July 2022, the EU Taxonomy Complementary Climate Delegated Act covering certain nuclear and gas activities was published in the Official Journal of the EU (OJEU) (following no objection by the European Parliament and Council). It came into force on 4 August 2022 and has applied from 1 January 2023. However, a number of NGOs (including Greenpeace, ClientEarth, Friends of the Earth and the WWF) have asked the Commission to review the inclusion of natural gas and nuclear in the Delegated Act. The Commission has up to 22 weeks to reply to the NGOs' requests. If, following an internal legal review, the Commission decides not to repeal/withdraw the Delegated Act, the NGOs have threatened to commence legal proceedings in the Court of Justice of the European Union (CJEU). The member state of Austria has also commenced legal proceedings in the CJEU against the Commission for inclusion of nuclear energy and natural gas in the taxonomy. It remains to be seen whether the various requests for internal review and the legal challenges in the CJEU will result in any changes to the EU green taxonomy. However, the legal challenges could take longer than two years, especially since in the present case an appeal is also conceivable. In the meantime, the Complementary Delegated Act remains legally valid and inforce, unless and until such time as either the Commission or the CJEU decide to revoke it.	See row above	See row above	EU

Item	Initiative and description of key policy objectives	Key actions for AFME members
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).	It had been intended that the delegated act (the "Environmental Delegated Act") would come into effect from 1 January 2023 – with firms required to make disclosures under the Taxonomy Regulation (i.e. large public interest entities under the NFRD, CSRD undertakings and FMPs under SFDR) likely to be expected to update their Taxonomy disclosures to reflect these standards.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
On 30 March 2022, the Platform on Sustainable Finance ("**PSF**") published its final non-binding recommendations to the European Commission on TSCs for these four environmental objectives. The Commission will now need to decide what to do with the PSF's recommendations and publish the Environmental Delegated Act, with the TSCs for the remaining four environmental objectives under the Taxonomy Regulation. This was expected to come into effect from 1 January 2023. However, the draft Environmental Delegated Act has not yet been published. March 2023 has been flagged as a tentative expected date for this to be published, but it may be delayed given disagreement amongst member states (particularly regarding the treatment of forestry and agriculture)	See row above	See row above	EU

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. Following a draft report on 12 July 2021, the PSF published its final report on options to extend the taxonomy with respect to environmental objectives on 29 March 2022. The focus is on supporting the net zero transition and the final 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 low environmental impact ("**LEnvl**") 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 "LEnvl" 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 LEnvl activities are effectively all lumped together as "not green"). The wording of the EU Taxonomy Regulation does not currently allow for the creation of any other category of activities other than "environmentally sustainable economic activities". As changing the Regulation would take some time, the PSF recommends that the proposed traffic light Taxonomy be applied initially on a voluntary basis and that the Commission should develop guidance on voluntary reporting, with examples of amber use of proceeds instructions and debt (what it calls Phase 1). Once the Commission has gathered experience and consulted with users on the voluntary approach, it would then submit a proposal to change the Level 1 Taxonomy Regulation to put the traffic light Taxonomy on a legislative footing (Phase 2).	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 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 LEnvl 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 2021: PSF published draft report and start of the public consultation 27 August 2021: public consultation closes 29 March 2022: PSF published its final non-binding recommendations to the Commission The Commission was required to publish a report on the extension of the scope of the Taxonomy by the end of 2021. This deadline has been missed and there has been no indication when we can expect this report. The Taxonomy Regulation also requires a report by 13 July 2022 assessing various aspects of the Regulation including its extension. This deadline has been missed.	See row above	See row above	EU

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. It a draft report on 12 July 2021 with its recommendations, and a final report on 28 February 2022. The social taxonomy is intended to define more clearly what amounts to a social investment and what activities contribute substantially to achieving social objectives with a view to directing private capital towards socially valuable activities. In response to feedback on its draft report, in particular to concerns about increased administrative burden on businesses, the PSF has tried to align the structure of the suggested social taxonomy more closely with the existing environmental taxonomy. The suggested structure of the social taxonomy now involves: • the development of social objectives; • defining different types of substantial contributions; • "do no significant harm" ("DNSH") criteria; and • minimum safeguards. The PSF has abandoned its previous suggestion of having a horizontal and vertical dimension and is now suggesting a single structure with three main objectives: • decent work (including value-chain workers); • adequate living standards and wellbeing for end-users ; and • inclusive and sustainable communities and societies. Each of the three main objectives will need to be supplemented by different sub-objectives. Further work will be needed to establish criteria for substantial contribution for the different sub-objectives. However, an economic activity does not need to make a substantial contribution to all sub-objectives in order to qualify as socially sustainable.	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 2021: PSF publishes draft report and public consultation starts 27 August 2021: public consultation closed 28 February 2022: PSF published its final report on extension of the existing EU taxonomy to include a social taxonomy The Commission now needs to decide if and how to take forward the PSF's suggestions (however it is understood that this project has been placed on the back burner currently)	See row above	See row above	EU

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, as its application is phased in, 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.[1] 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). In December 2022, the Commission published a draft FAQ on the interpretation and implementation of certain aspects of the Article 8 Delegated Act setting out responses to FAQs on the implementation of the Article 8 Delegated Act for non-financial undertakings. The draft will be formally adopted once the legal-linguist review has been undertaken. The FAQ states that "Another Notice in the form of replies to FAQs concerning the reporting by financial undertakings under the Disclosures Delegated Act may be adopted in due course".	Any financial services firms that are large public interest entities within your group (as calculated on a solo or consolidated basis, see above) must: i. 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 ii. 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. An FAQ for financial undertakings should be looked out for (indicated that it may be published), in case it provides further detail on how AFME members comply with the terms of the DA.

1 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 was finally approved and published in the Official Journal of the EU ("OJ") on 10 December 2021, entering into force on 30 December 2021. In-scope financial and non-financial undertakings are 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

Item	Initiative and description of key policy objectives	Key actions for AFME members
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). At the end of December 2022, the Treasury issued a statement explaining that the Government did not intend to make secondary legislation to develop the UK's green taxonomy in 2022, as originally scheduled. Having received advice from the Green Technical Advisory Group, and following stakeholder engagement, the Government has decided that there is benefit in reviewing its approach to taxonomy development to maximise the effectiveness of its sustainable finance agenda. The Financial Services and Markets Bill is currently before Parliament. Subject to parliamentary approval, the Bill will repeal retained EU law relating to financial services – including the Taxonomy regulations (which is the UK's onshored Level 1 Taxonomy Regulation). The Government will provide a further update as part of its publication of the Green Finance Strategy in early 2023. As previously articulated, 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. It remains to be seen how this has evolved. In early October, GTAG published its Advice on the Development of the Green Taxonomy. This advocated a full and considered market consultation on the development of the UK Taxonomy (leading to the change in approach that concluded 2022), and calls for the timetable to be significantly pushed back to allow for that. The advice in the paper focuses on four areas: i. how to approach onshoring the EU framework, on which the UK Green Taxonomy is based, at a time when the UK Government has set out a policy ambition to move further, faster than the EU in some areas of climate action; ii. optimising the taxonomy's international interoperability, given 80% of UK-managed assets are invested in international capital markets; iii. streamlining Do No Significant Harm (DNSH) to be usable and useful for reporting entities; and iv. setting out wide range of potential taxonomy use cases.	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 "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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
A further update on the UKs approach to its taxonomy is expected in "early 2023" when the UK's Green Finance Strategy is published. Informal indications from Treasury indicate this may be published around March.	TBC in due course.	TBC in due course.	UK

Item	Initiative and description of key policy objectives	Key actions for AFME members
Disclosure and reporting		
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 ('CSRD') (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.		
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 January 2023 (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
1 January 2022: Level 1 Taxonomy Regulation disclosure obligations apply for Article 8 and 9 SFDR products. 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). The SFDR Delegated Regulation will apply from 1 January 2023. Response from the Commission on questions posed by the ESAs on 9 September in relation to points of SFDR interpretation were provided on 17 November. Following the application of the SFDR Delegated Regulation in January 2023, amendments to it will be proposed in relation to the PASIs and pre-contractual disclosures (including in relation to transition plan disclosure). The ESAs will have until April 2023 to propose draft amendments to the RTS.	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.

Item	Initiative and description of key policy objectives	Key actions for AFME members
EU Sustainable Finance Disclosure Regulation ("EU SFDR") (continued)	**Supporting materials** • SFDR Delegated Regulation, adopted on 6 April 2022, will apply from 1 January 2023.. • Final Report on draft Regulatory Technical Standards (2 Feb 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 failed to reach agreement on the text and their application has now been delayed to 1 January 2023 (see Commission letter here). In October, a revised draft RTS on taxonomy alignment disclosures was published. The amendments are Taxonomy-focussed, with the industry questions relating to SFDR still open. • 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. • Endorsing the European Supervisory Authorities' (ESAs) September 2022 proposed amendments relating to the exposure of financial products to investments in fossil gas and nuclear energy activities to reflect the Climate Delegated Act, on 31st October, the European Commission published updated technical standards. These amendments were formally transmitted to the European Parliament and the Council, who had three months to scrutinise the Delegated Regulation (with it scheduled to enter force on the third day following publication in the OJEU). These were expected to be in force in Q1 2023. This deadline was met – in February the Commission published delegated regulation 2023/363 which amends and corrects the SFDR RTS, particularly in respect of detail in the pre-contractual disclosures, on websites and in periodic reports regarding exposures to investments in fossil gas and nuclear energy activities. • Amendments relating to principal adverse impacts indicators and to the transparency of financial products' disclosures are requested from the ESAs. The new draft SFDR RTS should be submitted to the Commission by April 2023. This amendment does not affect the implementation of the SFDR RTS (which should still apply from 1 January 2023). • The ESAs submitted a list of questions to the Commission regarding interpretation of SFDR and Taxonomy. The SFDR questions focus on PAI disclosures, transparency of sustainability risks, financial advisors and recommendations of financial products, and good governance practices. A Commission Decision provided responses on 25 May.	

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The delegated regulation bringing the SFDR RTS into line with the Complementary Climate Delegated Act (with regard to nuclear and gas disclosures) came into force on 20 February 2023. There will be a comprehensive assessment of SFDR implementation in 2023, involving workshops with industry, stakeholder engagement and public consultation. This is expected to commence in Q1 2023 (Commission engagement with NCAs), a public consultation in Q3 2023 and the final outcome in Q2 2024.			

Item	Initiative and description of key policy objectives	Key actions for AFME members
EU Sustainable Finance Disclosure Regulation ("EU SFDR") (continued)	• On 2 June 2022, the ESAs provided a clarificatory statement on some aspects of the SFDR RTS, including in relation to DNSH, measuring and disclosing sustainability indicators, Article 9 products, PAI calculations and Taxonomy commitments. • On 9 September 2022, the ESAs submitted further questions to the Commission on some important questions of interpretation of the SFDR, including in relation to the definition of "sustainable investment". Responses were provided in November. 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 (this work has commenced, as evidenced in the letter on the work the ESAs are mandated to undertake to propose amendments to the RTS (see above).	
ESMA Guidelines on the use of funds' names with ESG or sustainability-related terms	The name of a fund is usually the first fund attribute investors see, and while investors are expected to look beyond the name itself, the name can have a significant impact on their investment decisions. ESMA believes that to prevent misleading investors and prevent potential greenwashing risk, the use of ESG or sustainability-related terms in a fund name should be supported in a material way by evidence of sustainability characteristics or objectives that are reflected fairly and consistently in the fund's investment objectives and policy. Accordingly, ESMA has launched for consultation draft Guidelines on the use on funds' names with ESG or sustainability-related terms.	AFME members with EU entities that provide investment management must ensure any funds they launch comply with the guidelines

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The consultation closes on 20 February 2023 with ESMA expecting the final Guidelines to be issued by Q2/Q3 2023. The Guidelines would become applicable from 3 months after the publication of their translation on ESMA's website (so potentially Q3/Q4 2023). A transitional period of 6 months is suggested for those funds launched prior to the application date, in order to comply with the Guidelines.	Asset management businesses will be directly impacted.		EU

Item	Initiative and description of key policy objectives	Key actions for AFME members
EU Commission work in relation to greenwashing	On 30 June 2022, the Commission published a request for input to the ESAs relating to greenwashing risks and the supervision of sustainable finance policies. The ESAs are requested to provide input on the following: • Greenwashing and greenwashing risks. Where possible, the ESAs should collect information on the most frequent greenwashing occurrences and complaints. • Supervisory practices, experience and capacities. The Commission is looking for an overview and assessment of the most relevant supervisory practices and tools competent authorities are developing, or have developed to define, capture and address greenwashing cases and greenwashing risks within their remit. • The current status of implementation of sustainable finance policies and supervisory convergence. • Supervisory measures and enforcement. • Assessment of supervisory obligations and powers. • Proposals for improvement of the regulatory framework. The Commission is interested in insight on areas of improvement for the current regulatory framework based on observed and experienced potential shortcomings. The Commission requests each of the ESAs, individually but in a co-ordinated manner, provide their respective input by means of a progress and final report. They should focus on how greenwashing is understood and where it may materialise, actions taken and tools developed to ensure adequate monitoring of greenwashing risks and early supervisory challenges in monitoring the application and enforcing new policies. The final reports should build on the findings of the progress reports, for instance, by providing examples of greenwashing cases and assessing their impact on the financial market, by assessing supervisory measures, supervisory obligations and powers related to fighting greenwashing cases and addressing greenwashing risks. They should also assess the implementation of policies aiming at preventing greenwashing and addressing greenwashing risks. This request has been followed by a Call for Evidence on greenwashing from the ESAs, launched in November 2022. The ESAs are interested in collecting: • views from stakeholders on how to understand greenwashing and what the main drivers of greenwashing might be; • examples of potential greenwashing practices; and • any available data to help the ESAs gain a concrete sense of the scale of greenwashing and identify areas of high risks.	TBC, depending on how the ESA's findings impact development of regulation and policy in relation to prevention of greenwashing.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The ESAs are requested to publish a progress report by August 2023 and a final report by August 2024. Based on the ESAs' input, the Commission will assess and monitor greenwashing risks in the financial market while the implementation of key policies is ongoing. It will also consider whether further steps are necessary for effective supervision and enforcement in the context of greenwashing and risks. The ESA's launched their Call for Evidence in November 2022. The deadline for submissions is 10 January 2023. Contributions will feed into the ESAs' finding for their progress reports expected in May 2023. and final reports due in May 2024.	TBC, dependent upon focus of regulation/policy developing from the ESA's findings and other related work.	As for previous column	EU

Item	Initiative and description of key policy objectives	Key actions for AFME members
UK FCA Consultation Paper proposing UK Sustainability Disclosure Requirements regime	Following its discussion paper, the FCA opened a consultation in October 2022 on its proposed 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). It includes an anti-greenwashing rule for all regulated firms, as well as requirements around product labelling for sustainable investment funds. **Scope** – the proposed 'anti-greenwashing' rule applies to all regulated firms. However, the more specific proposals (e.g. classification, disclosure, naming, marketing and distribution) primarily impact investment funds (and primarily those marketed to retail investors) and the firms that manage or distribute those products. **Application to overseas funds** - the proposals focus on funds and portfolio management based in the UK. They do not cover overseas products that are marketed into the UK (unlike the EU's SFDR and most other domestic ESG labelling regimes such as the French AMF doctrine). Overseas products will likely be indirectly impacted, as: (i) UK distributors / regulated firms, who will be subject to the general anti-greenwashing rule, will require an overseas fund and (ii) manufacturers of these overseas funds may wish to advocate for voluntary compliance with the labels from a local demand or competitiveness perspective. **Product labels** – 3 products labels are proposed with different eligibility criteria - "Sustainable – impact", Sustainable – improver and "Sustainable - focus ". **Requirements on distributors –** The proposed regime would require distributors to ensure that product-level information (including the labels) is made available to consumers (the EU's SFDR rules do not impose any obligations on distributors). **General 'anti-greenwashing' rule –** The proposed regime envisages this general rule to be applied to all regulated firms, which reiterates existing rules to clarify that sustainability-related claims must be **clear, fair and not misleading .** This is a key proposal, and although the FCA will reason that this is just a clarification of their existing rules, it will likely require all FCA-regulated firms to revisit their approach to ESG and sustainability across all product types (not just investment products in scope of the SDR) and disclosures.	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. If AFME members act as a distributor, they would need to have regard to the relevant rules on distributors. **The general 'anti-greenwashing' rule will** apply to all regulated firms. It reiterates existing rules to clarify that sustainability-related claims must be **clear, fair and not misleading , which** will likely require all FCA-regulated firms to revisit their approach to ESG and sustainability across all product types (not just investment products in scope of the SDR) and disclosures.
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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The consultation closes on 25 January 2023. Final rules are expected by mid-2023. The FCA is proposing for the general anti-greenwashing rule (which applies to all FCA-regulated firms) to come into effect as soon as its policy statement on these reforms is published (expected 30 June 2023) but all the other reforms will have at least a one-year implementation period, taking effect from 30 June 2024 or thereafter. The FCA published a letter (sent 9 January) in which it responded to questions from the Treasury Select Committee on its SDR consultation, particularly regarding its anticipated supervisory and enforcement approach and capabilities in this area.	The anti-greenwashing rule will impact all products and services offered/sold by an AFME member firm which purport to be green/sustainable etc. Asset and wealth management will be impacted by the labelling/disclosure provisions There are rules where the firms acts as distributor of an SDR product.	These reforms are likely to result in buyside firms requesting ESG disclosures and information from broker-dealers/banks on their products	UK
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

Item	Initiative and description of key policy objectives	Key actions for AFME members
Swiss prospective law/ amendments on sustainable finance including to prevent greenwashing	The Swiss government is taking 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 Since then, the Federal Council published its position paper on the next steps needed to prevent greenwashing in the financial sector (December 2022). It has also instructed a working group, led by the Federal Department of Finance, to make proposals on the best way to implement the Council's position on the prevention of greenwashing.	Not defined yet.
Mandatory TCFD disclosures by UK firms	In 2021, the UK government announced its roll out of mandatory TCFD reporting across the economy by 2025, with most of the remaining measures expected to be introduced by 2023. So far, the FCA has made rules for 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 (see FCA PS 20/17); • standard listed commercial companies – by extending the aforementioned rule to apply for financial years beginning on or after 1 January 2022 for all other listed companies (see FCA PS 21/23); and • UK asset managers, life insurers and FCA-regulated pension providers (see FCA PS 21/24). 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. In July, FCA reviewed the first disclosures made under these rules by premium listed issuers and suggested areas of best practice. See also row below for mandatory TCFD reporting for UK registered companies (which includes many UK financial institutions). 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. They may also be subject to TCFD reporting for corporates via the Companies Act 2006 amendments (see row below).

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
FINMA's guidance on preventing and combating greenwashing was published on 3 November 2021. Proposals for preventing greenwashing in the financial sector expected by the end of September 2023.	Not defined yet.	Not defined yet.	Switzerland
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

Item	Initiative and description of key policy objectives	Key actions for AFME members
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. The requirements are set out in the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and the Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022, which were made on 17 January 2022. These regulations amend the Companies Act 2006 and the LLP Act respectively. The Department for Business, Energy & Industrial Strategy (BEIS) has published guidance to help publicly quoted companies, large private companies and limited liability partnerships (LLPs) understand how to meet these new mandatory TCFD-aligned climate disclosure requirements.	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.
UK TCFD reforms for asset managers	On 17 December 2021, the FCA published policy statement 21/24 with requirements extending 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. These rules require 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) 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 rules do 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). The rules can be found in the ESG Sourcebook of the FCA Handbook.	No direct impacts unless AFME members provide investment management services or have affiliates that are in scope of the regime.
Switzerland – TCFD implementation	The Swiss Ordinance on Climate Disclosures, adopted in November 2022, will require mandatory TCFD reporting by 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.	AFME member entities within scope of the reporting requirement will need to report in compliance with the Ordinance.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
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
The regime applies 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
The Ordinance will come into force from January 2024, with first reports published in 2025.	Disclosure obligations and increased transparency.		Switzerland

Item	Initiative and description of key policy objectives	Key actions for AFME members
French AMF ESG Doctrine	The AMF published a Position-Recommendation 2020-03 on "information to be provided by collective investment schemes incorporating non-financial approaches" in March 2020 (with two updates published in July 2020 and January 2022) – the "**AMF ESG Doctrine**". The AMF ESG Doctrine 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 to retail investors are, strictly speaking, in scope. In theory, instead of complying with certain requirements concerning the fund documentation, foreign funds could include prominent disclaimers in each marketing material addressed at French investors flagging that their products do not comply with the AMF ESG Doctrine. However, it is quite impossible in practice to market a fund in France on the basis of such disclaimers. Funds with ESG ambitions that are marketed in France should be categorised as either adopting a "significantly engaging" or "non-significantly engaging" ESG methodology: i. only funds implementing a significant engagement methodology are entitled to disclose ESG objectives as a "key"/"central" aspect of communications in their documentation; and ii. 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 AMF ESG Doctrine 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. Compliance with the minimum standards must be reflected in the fund documentation (i.e. the AMF ESG Doctrine provides for some ESG disclosures to be inserted in the prospectus in this respect). 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. The update of the AMF ESG Doctrine published in January 2022 provides for some additional requirements for funds using Total Return Swaps and communicating on their consideration of non-financial criteria. **Interplay with SFDR:** The AMF ESG Doctrine was introduced before SFDR. The AMF published a communication 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 (with some overlaps) and that it may 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 to retail investors.

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.

Item	Initiative and description of key policy objectives	Key actions for AFME members
BaFin Consultation on Guideline for Sustainable Investment Funds	In August 2021 the German regulator, BaFin, published a draft guideline for sustainable investment funds ("Sustainability Guideline") which includes additional requirements (inter alia, quantitative thresholds of sustainable investments and exclusion criteria) for German retail funds (i) which include a reference to their sustainability profile in their name (such as "ESG", "sustainable" or "green") or (ii) which are marketed to the investor as sustainable. The Sustainability Guideline was never finalised and has now been put on hold. BaFin justified this step in its annual press conference on 3 May 2022 with reference to the current geopolitical situation. However, BaFin stated that it will nevertheless continue to apply the Sustainability Guideline by way of administrative practice. It is unclear at this point whether such application by way of administrative practice will include the entire Sustainability Guideline or just parts thereof. Accordingly, German retail funds that are referenced or marketed as sustainable will likely need to (i) either invest at least 75% in sustainable investments, pursue a sustainable investment strategy with at least 75% of its assets or track a sustainable index and (ii) comply with certain exclusion standards.	No direct impacts unless AFME members have fund manager affiliates manufacturing German funds.
Corporate Sustainability Reporting Directive ("CSRD")	The European Commission's Proposal for a Corporate Sustainability Reporting Directive revises and enhances the 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. In-scope entities will be required to use the mandatory European sustainability reporting standards (ESRS) being developed by EFRAG, and which are currently under consultation. These exposure drafts cover the full range of sustainability matters (environment, social, governance and cross-cutting standards). The type of sustainability information required to be disclosed under the ESRS includes the principal adverse impact (PAI) KPIs required to be disclosed under the EU SFDR and the information required under the Taxonomy Regulation (among other things). EFRAG are in the process of developing a second set of draft ESRS that will cover sector-specific standards as well as sustainability reporting standards aimed at SMEs but those are not yet available for consultation. A controversial negotiation in agreeing the final text was in relation to extra-territorial scope. It has been agreed that CSRD will apply to non-EU undertakings which generate a net turnover of EUR150million in the EU and have at least one subsidiary or branch in the EU. Further guidance on how "turnover" is defined will be critical in understanding the full impact of this scope. 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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The Sustainability Guideline was never finalised and has now been put on hold. BaFin justified this step in its annual press conference on 3 May 2022 with reference to the current geopolitical situation.	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
The CSRD was published in the OJEU on 16 December 2022. It entered into force 20 days later, and member states have 18 months to implement the new rules into national law. EFRAG published exposure drafts of the first set of ESRS for public consultation; the consultation closed on 8 August 2022. It then submitted the final drafts of the first set of ESRS to the Commission on 22 November 2022. The Commission now needs to adopt the final ESRS via delegated acts. This is expected in June 2023, followed by a scrutiny period by the European Parliament and Council. CSRD will be phased in: 1 January 2024 for companies already subject to the non-financial reporting directive 1 January 2025 for large companies that are not presently subject to the non-financial reporting directive 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings. 1 January 2028 for non-EU companies. which generate a net turnover of EUR 150 million in the EU and which have at least one subsidiary or branch in the EU (this is a new addition to the scope of the original proposal, and there is still uncertainty how “turnover generated in the EU” will be interpreted)	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

Item	Initiative and description of key policy objectives	Key actions for AFME members
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.
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 consulted on additional changes to its framework. In the UK, the FCA has made TCFD disclosures mandatory for listed commercial companies and asset managers/ asset owners. • Task Force on Nature-related Financial Disclosures. The key objective of the TNFD is to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. The recommendations are currently under consultation. Relatedly, the Kunming-Montreal Global Biodiversity Framework was formally adopted in December 2022's COP 15 biodiversity summit. This sets out a number of targets to be achieved by 2030 including a monitoring and disclosure target for the private sector. It is expected that firms will align themselves with disclosure initiatives like the TNFD to meet the expectations of the Framework. • 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**"). Whilst the SASB and IIRC standards are to remain distinct, complementary tools following the merger, the VRF are expected to publish guidance on how stakeholders can use both standards together to enhance the quality of sustainability reporting. • 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**") – 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**") (this happened in November 2021), which is tasked with preparing and overseeing a set of comparable and consistent sustainability standards to replace the current voluntary patchwork in this space. The IFRS Foundation believe the ISSB "allow businesses to build public trust through greater transparency of their sustainability initiatives, which will be helpful to investors and an even broader audience in a context in which society is demanding initiatives to combat climate change" See below for further information on the work and progress of the ISSB.	**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 listed commercial companies, asset managers and asset owners **TNFD** – Similar to TCFD, disclosures will be required on how nature impacts the organisation's immediate financial performance, or the longer-term financial risks that may arise from how the organisation, positively or negatively, impacts nature **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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The rules entered into force on 1 January 2022, subject to a one year transition period.	Whole bank impact	Where disclosure obligations impact bank clients, likely indirect impact (e.g. data requests) on banks.	Switzerland
Development and consolidation of the various sustainability reporting standards is ongoing. The FCA's mandatory TCFD disclosure regime for premium listed corporates, standard listed corporates and asset managers/ asset owners is already in force. TNFD: the third draft of the disclosure framework was published in November 2022 and is open for consultation. The fourth version will be published in March before the launch of the final recommendations in September 2023. The ISSB intends to finalise the two standards in June 2023 – progress on them was made in the last ISSB (December 2022) meeting. Corporates and investors will be waiting to see whether governments decide to adopt the ISSB standards in their national frameworks or develop their own bespoke standards.	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

Item	Initiative and description of key policy objectives	Key actions for AFME members
International Sustainability Reporting Standards (continued)	• 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 was published on 23 November 2021 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. • The new International Sustainability Standards Board ("ISSB") was formed during COP26 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 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 intends to create a mechanism to adopt and endorse ISSB-issued standards for use in the UK. In April, the ISSB published the first set of its draft sustainability disclosure standards for consultation. These are: • Draft General Requirements for Disclosure of Sustainability-related Financial Information Standard, which require companies to disclose information that enables investors to assess the effect of significant sustainability-related risks and opportunities on its enterprise value (Exposure Draft IFRS S1); and • Draft Climate-related Disclosures Standard (Exposure Draft IFRS S2). Final IUSSB standards are expected in June 2023	**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. The IFRS Foundation set up the ISSB during the COP26 UN climate summit in November 2021, with climate standards issued in April 2022. Next, it is for the IFRS Foundation to decide whether to expand the climate standards to incorporate other ESG/sustainability information.
GFANZ Recommenda-tions	The Glasgow Financial Alliance for Net Zero (GFANZ) has published a report on what financial institutions expect to see in companies' climate transition plans. The report sets out what GFANZ considers to be the key components of a credible and actionable transition plan. This is what financial institutions (that are GFANZ members) will be looking for from companies across the globe, to inform the financial sector's allocation of capital and services and to help them decide how to engage with investee companies on the net zero transition. The GFANZ report highlights that companies' access to financial products and services may be increasingly dependent on their climate targets and strategies and on the progress made against those targets. GFANZ see transition plans as the most effective way for companies to provide financial institutions with information about their net-zero strategy and their level of ambition. This will enable the financial sector to assess the credibility of a company's climate objectives and compare the company relative to sectoral/regional expectations and against their peers. The key implication is that companies with credible transition plans may increasingly be able to access financial products and services tailored to low-carbon business models. While companies that do not have credible transition plans may face higher costs and/or restricted access to financial products and services (e.g. higher costs of capital), depending on the decision-making process of their financial institution(s).	TBC, depending on how climate targets and progress against targets evolve to be linked to access to financial products and services. The GFANZ recommendations will influence and shape the recommendations by the UK's Transition Plan Taskforce

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The "Financial Institution Net Zero Transition Plans – Fundamentals, Recommendations and Guidance" was published in November. This guidance sets voluntary standards for transition plans, but is expected to be a standard-setter for transition plan requirements around the globe.	The guidance should be used by AFME members to inform how they meet their transition plan obligations	The recommendations and guidance will inform the data and information requests that AFME member clients make of the AFME member. So understanding the GFANZ recommendations will be useful in understanding what to expect.	Global

Item	Initiative and description of key policy objectives	Key actions for AFME members
UK Transition Plan Taskforce	The TPT was launched by HM Treasury to develop a gold standard for climate transition plans. Working with FCA, the TPT has been given a two year mandate to strengthen disclosures in this space. This will be tied to the FCA's SDR framework, which will require disclosures on transition plans. In November 2022, the TPT published, for consultation, a sector-neutral disclosure framework and accompanying guidance with recommendations for companies and financial institutions in the UK on how to develop credible and robust climate transition plans.	Disclosure on transition plans will be required by AFME members through a variety of mechanisms. The TPT's recommendations will be important in the determining the substance of those disclosures

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The TPT's consultation closes on 28 February 2023. The TPT will then reflect on feedback received with a view to finalising the sector-neutral framework and accompanying guidance in summer 2023. The TPT plans to publish in 2023 a range of "**sector guidance**", including guidance for financial institutions and the real economy.	AFME members will need to assess whether and at what stage their legal entities are in scope of the publication requirement and will need to reflect the recommendations from the Taskforce in their transition plan disclosure	TBC	UK

Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability in financial services sectoral legislation		
Whilst dominated by a package of EU legislation (namely the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation and the Benchmarks Regulation, which has introduced two types of sustainability benchmarks), the SF 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.		
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: i. the consideration of sustainability risks in the organisational, governance and risk management framework; ii. the consideration of sustainability preferences/risks in the conflicts framework; iii. the consideration of sustainability preferences in the suitability assessment process, when providing advice or managing investments; iv. 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 v. 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 came into force from 1/2 August 2022, and firms will need to have been compliant with the relevant requirements, as of that date. With regard to the MiFID II product governance amendments, Member States will need to have amended their national rules to implement the directive amending those 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

Item	Initiative and description of key policy objectives	Key actions for AFME members
ESMA Guidelines on certain aspects of the MiFID II suitability requirements	ESMA has proposed guidelines on the ESG amendments to the suitability requirements in MiFID II, largely relating to sustainability preferences.	The guidelines will only be relevant to AFME members who provide investment advice, or for investment/asset manager affiliates. See row above for more on impact of suitability amendments.
ESMA Guidelines on certain aspects of the MiFID II product governance requirements – consultation paper	On 8 July, ESMA published updated MiFID II product governance guidelines for consultation, which also include changes to reflect the upcoming ESG changes to the MiFID II product governance ("PG") rules that take effect from November this year. The guidelines are surprisingly light on the ESG side and the key ESG update is that ESMA has suggested that MiFID manufacturers and distributors could use the "sustainability preferences" definition from the upcoming ESG suitability rules (i.e. min % of Taxonomy alignment, min % of SI sustainable investments or PAI consideration) to define the sustainability related objectives of their product's target market. This is expressed as an option rather than a requirement, but care should be taken when completing industry led ESG documents such as the European ESG template ("EET") or the latest European MiFID template ("EMT") – as responses in the EET/EMT could be viewed as a confirmation of the product's target market sustainability objectives.	The guidelines need to be taken in account in the way AFME members implement the product governance requirements.
Fiduciary Duties and further amends to AIFMD, MiFID II, UCITS, IDD and IORP II.	As anticipated in the Renewed SF Strategy, the Commission has asked 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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The guidelines were finalised on 23 September 2022. They were expected to apply 6 months after publication, so around late March 2023. However, publication of the translations has been delayed. We now expect translations to be published by April 2023. Publication of the translations is the trigger for application of the Guidelines.	As above - there will be specific impacts for Asset Management, Wealth Management and other advisory businesses.	The changes introduced to the suitability regime will likely lead to distributors/investors demanding increased information on the greenness of products manufactured by banks/brokers.	EU
The consultation closed on 7 October 2022. ESMA will consider the feedback it receives to the consultation in Q4 2022 and expects to publish a final report in Q1 2023 (i.e. after the application of the new PG amendments).	Of relevance to any part of the bank which manufactures or distributes investment products, e.g. DCM, ECM, private banking, custody and depositary services	TBC	EU
EIOPA has been asked to deliver its advice by 1 July 2023.	TBC in due course – any teams providing investment advice will be directly impacted.	TBC in due course	EU

Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability in prudential requirements		
Whilst disclosure and reporting has developed as an important limb of the SF framework, it is accompanied by an equally important focus on the quantification of climate change risk as a financial risk, whose impact must be factored into prudential and risk management frameworks. This leads to amendments to prudential legislation, notably the Capital Requirements Regulation, and is a focus of the ECB and EBA in their publication of policy and guidelines on how risk management frameworks should adapt to for inclusion of this category of risk.		
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.[2] 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.

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

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
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 being their broad bank sector assessments, they are also being developed for use in climate change-specific risk analysis. Notably, the ECB has conducted a first-of-its-kind, economy-wide climate stress test which encompasses 2000 euro-banks, with the results published in July.			
Report issued in June 2021. EBA Guidelines on the management of ESG risks have not been proposed yet. Although the SREP Guidelines were updated in March 2022, this review did not relate to the inclusion of ESG risks into the SREP, which will be undertaken in a subsequent review.	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

Item	Initiative and description of key policy objectives	Key actions for AFME members

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).[3] These disclosures are applicable from 28 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 (ITS) 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.
	In January, the final draft ITS was published by the EBA.
	The ITS sets out 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, the BTAR 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 ITS 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 September, the Commission suggested two changes to the ITS:
	  - Deleting the definition of individual ESG risks, because this definition has taken place in the context of the CRR3 proposal currently being negotiated.
	  - Disclosure of the banking book taxonomy alignment ratio should take place on a voluntary basis because due to the lack of data from SMEs and non-NFRD corporates.
	It requested the EBA's opinion on these two suggestions, which the EBA submitted on 17 October 2022. Subsequently on 19 December 2022. The ITS (EU 2022/2453) was published in the OJEU on 19 December 2022 and entered force on the 20th day thereafter.
		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).

3 Article 449a CRR.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
Commission Implementing Regulation (EU) 2022/2453 was published in the OJEU on 19th December 2022 and entered force on the 20th day thereafter. First reports are due on 2023, with a disclosure reference date as of 31 December 2022	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

Item	Initiative and description of key policy objectives	Key actions for AFME members
ECB Report – Supervisory assessment of institutions' climate-related and environmental risk disclosures	In March 2022, ECB published an updated assessment report on the progress banks have made on disclosing climate-related and environmental risks as set out in the ECB's November 2020 guide. The ECB found that, although there have been improvements since its first assessment in late 2020, these are "marginal" and no bank fully meets the supervisory expectations. The assessment concluded that significant gaps remain, including: • the overall level of transparency remains insufficient; • banks' disclosure of key metrics is not sufficiently in line with supervisory expectations; and • many banks do not sufficiently substantiate their climate and environmental risk disclosures. Banks were sent individual letters informing them of their shortcomings, In November 2022 the ECB published the results of its thematic review on climate-related and environmental risks, which included the compliance deadlines for banks, together with a compendium of good practices that it observed in some banks during its review. The thematic review, which was conducted in tandem with the first supervisory stress test on climate-related risks in July 2022, was intended to check whether banks adequately identify and manage climate-related risks as well as environmental risks such as biodiversity loss ("C&E risks"). It also considered banks' risk strategies and their governance and risk management processes. The review which covered 186 banks, including "significant banks" under direct ECB supervision and "less significant banks" supervised by national authorities, showed that banks are still far from adequately managing climate-related and environmental risks. Consequently, all banks received comprehensive feedback letters following the review, identifying on average 25 shortcomings and setting out institution specific remediation timelines. As a minimum, the ECB expects all institutions to meet the following milestones (and warns that these deadlines will be closely monitored): • By March 2023 : Banks are expected to adequately categorise C&E risks and conduct a full assessment of their impact on banks' activities (for all business areas, in the short, medium and long term). • By end of 2023: Banks must manage C&E risks with an institution-wide approach covering business strategy, governance and risk appetite, as well as risk management, including credit, operational, market and liquidity risk management. • By end of 2024: Banks must be fully aligned with all supervisory expectations on C&E risks outlined in the ECB's 2020 Guide on climate-related and environmental risks, including having in place a sound integration of C&E risks in their stress testing framework and Internal Capital Adequacy Assessment Process (ICAAP). Institution specific milestones have also been included in individual feedback letters. The outcomes have also been incorporated into the 2022 Supervisory Review and Evaluation Process (SREP), with binding qualitative requirements being imposed on more than 30 significant institutions and a small number of banks seeing their SREP scores, and therefore their "pillar two" capital requirements, impacted.	AFME members which have ECB regulated "significant institutions" in their groups can expect further scrutiny from ECB on their preparedness to manage environmental / climate related risks. As well as the supervisory focus, ECB will use its findings to inform Pillar 2 requirements.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The ECB will be closely monitoring progress of banks in meeting the milestones set by the ECB, the first approaching in March 2023 (subject to any earlier institution specific milestones).	Whole bank		EU

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. This theme is explored in the EBA's May Discussion Paper, The Role of Environmental Risks in the Prudential Framework. Although only an exploratory paper, at this stage the view tends towards inclusion of ESG exposures within the existing framework. In August, the Parliament published its amendments to CRR III / CRD VI, including various ESG-related amendments.	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. The EBA Discussion Paper, The Role of Environmental Risks in the Prudential Framework was published in May 2022.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The proposals are at any early stage. Their publication in the OJEU can be expected for H2 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

Item	Initiative and description of key policy objectives	Key actions for AFME members
EU Stress testing and scenario analysis	The ECB has been conducting a first-of-its-kind, economy-wide climate stress test which encompasses 2000 euro-banks and which covers a period of 30 years into the future. The results were published on 22 September 2021. Additionally, the ECB has conducted a 2022 climate risk stress test for SSM supervised banks.[4] This relied 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 exercise consists of three distinct modules: (i) a questionnaire on banks' climate stress test capabilities, (ii) a peer benchmark analysis to assess the sustainability of banks' business models and their exposure to emission-intensive companies, and (iii) a bottom-up stress test. The ECB published the results of its 2022 stress test in July. The ECB concluded that although some progress has been made since 2020, that banks in the Single Supervisory Mechanism (SSM) do not yet sufficiently incorporate climate risk into their stress-testing frameworks and internal models. Its findings include the following: • Around 60% of banks do not yet have a climate risk stress-testing framework and **most banks do not include climate risk in their credit risk models, with just 20% considering climate risk as a variable when granting loans**. • On aggregate, **almost two-thirds of banks' income from non-financial corporate customers stems from greenhouse gas-intensive industries**. In many cases, banks' financed emissions come from a small number of large counterparties, increasing their exposure to transition risks. Banks often rely on proxies to estimate their exposure to emission-intensive sectors. The report contains a high-level description of the good practices in climate relating to risk stress testing observed by the ECB. The ECB states that it is crucial that banks obtain better data from their customers and rely less on proxies to estimate their exposure to carbon-intensive sectors. They should also establish climate stress testing capabilities that encompass several climate risk transmission channels and portfolios 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.

4 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
Further details about the ECB's stress test for SSM supervised banks were published in October 2021 in the ECB's "Dear CEO" letter. The aggregated results of this stress test were published in July 2022. The ECB will integrate the findings from the 2022 CST into its supervisory review and evaluation process (SREP), which means that they could have an indirect effect on Pillar 2 capital requirements. There will, however, be no direct impact on capital through Pillar 2 guidance in 2022.	As above	The outcomes of these stress tests are likely to drive regulatory engagement/scrutiny on ESG matters.	EU

Item	Initiative and description of key policy objectives	Key actions for AFME members
UK: Bank of England climate stress test	The Climate Biennial Exploratory Scenario (CBES), was undertaken in 2021 and results have now been published. The overall conclusion is that, although UK banks and insurers are making good progress in some aspects of their climate risk management, much more needs to be done to understand and manage their exposure to climate risks. Key points that emerged: • Based on this exercise, whilst over time climate risks will become a persistent drag on banks' and insurers' profitability, the costs of a transition to net zero look absorbable for banks and insurers without a worrying direct impact on their solvency. • That being said, there is a lot of uncertainty in these projections, not to mention that the drag on profitability will leave the sector more vulnerable to other, future shocks. • The timing and extent of climate action has a significant bearing on the degree of losses and risk that might be suffered, with climate-related credit losses for banks under the late action scenario 30% higher than the early action scenario. Loss rates for banks under the late action scenario were projected to more than double as a result of climate risk, leading to an extra £110 billion of losses. As such, early action is important to lower the cost of the transition (bearing in mind, however, that the financial sector cannot run ahead of the real economy). • The "no additional action" (NAA) scenario delivers the worst outcome. Whilst a simple comparison of estimated loss rates under each of the scenarios might suggest otherwise, this is misleading due to the very different end points of the scenarios (and under NAA, unlike the other two scenarios, the impact of climate change would persist beyond 2050, incurring substantial economic costs not captured in the estimates). The results also highlight the significant impact to climate vulnerable households and sectors under the NAA scenario, as assets exposed to physical climate risk could become prohibitively expensive to insure or borrow against.	TBC, depending on feedback from BoE (for relevant banks), and further policy development for the UK bank sector.
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
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

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
Results were published in May. BoE is giving firms feedback on the quality of their CBES submissions. What this leads to remains to be seen: the BoE will use the CBES results to inform ongoing work on climate risks, amongst other things feeding into the Financial Policy Committee's thinking around financial stability policy issues related to climate change.	TBC	TBC	UK
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
Between 2022 and 2023	TBC in due course	TBC in due course	EU

<table>
<tr><th>Item</th><th>Initiative and description of key policy objectives</th><th>Key actions for AFME members</th></tr>
<tr><td>Disclosure and Reporting</td><td>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.</td><td>TBC in due course – but likely to be similar action points to the previous prudential rows.</td></tr>
<tr><td>ECB's Action Plan</td><td>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.

On 4 July 2022, the ECB announced new measures to account for climate change in its corporate bond purchases, collateral framework, disclosure requirements and risk management, in line with its climate Action Plan and accompanying roadmap. Such measures include:
Corporate bond holdings: tilting corporate bond holdings towards issuers with better climate performance (measured by reference to lower greenhouse gas emissions, more ambitious carbon reduction targets and better climate-related disclosures) through the reinvestment of the sizeable redemptions expected over the coming years.
Collateral framework: limiting the share of assets in its collateral framework of issuers with a high carbon footprint, with limits initially only applying to marketable debt instruments issued by non-financial companies. Eurosystem also to consider climate change risk when reviewing haircuts applied to corporate bonds used as collateral.
Climate-related disclosure requirements for collateral: following full implementation of CSRD, only accepting marketable assets and credit claims as collateral in Eurosystem credit operations from companies and debtors within scope of CSRD that comply with the directive. For assets that can be pledged which do not fall under CSRD (such as asset-backed securities and covered bonds) the Eurosystem intends to support better and harmonised disclosures of climate-related data by engaging closely with the relevant authorities.
In a press release of 19 September 2022, the ECB announced that it had published FAQ detailing how it aims to gradually decarbonise the corporate bond holdings in its monetary policy portfolios on a path aligned with the goals of the Paris Agreement, including by reducing the Eurosystem's exposure to climate-related financial risk by tilting its corporate bond purchases towards issuers with better climate performance (as outlined in the above July 2022 announcement). The ECB will use issuer-specific climate scores (which they will calculate using three sub-categories: backward-looking emissions, forward-looking targets and climate reporting/disclosures) for decarbonisation. The metrics will be based upon publicly available data and the methodology is guided by the requirements for climate transition benchmarks and Paris-aligned benchmarks pursuant to EU regulation.
In addition, the Eurosystem will use a differentiated bidding approach in the primary market to favour issuers with higher climate scores, also allowing for favourable treatment of green bonds that comply with a stringent identification process.
Finally, the Eurosystem will employ other measures, such as maturity limits for lower-scoring issuers, to further mitigate its climate-related financial risk.</td><td>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 ECB's Action Plan.</td></tr>
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Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
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 and the ECB announced new measures implementing aspects of this Action Plan on 4 July 2022, with further details on how the ECB intends to gradually decarbonise corporate bond holdings announced on 19 September 2022. Timings relating to these decisions vary, with some expected to apply from 2022. Corporate bond holdings will be tilted towards issuers with better scores and this tilting will be applied to all corporate bond purchases settled as of 1 October 2022. The ECB will begin publishing climate-related information on corporate bond holdings regularly from Q1 2023. Changes to the collateral framework are expected to apply by end of 2024 with further details, including the timeline, to be communicated in due course. The Eurosystem will consider climate change risks when reviewing 'haircuts' applied to corporate bonds from this year. The decision relating to climate-related disclosure requirements for collateral are expected to apply in line with the implementation of CSRD.	TBC in due course	TBC in due course	EU

Item	Initiative and description of key policy objectives	Key actions for AFME members
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 e.g. CRR to incorporate ESG risks more explicitly.
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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
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. See row above 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. See row above	The Report may lead to impacts to AFME members through changes to prudential risk management requirements e.g. in CRR or through the development of supplemental guidelines and standards.	TBC in due course	EU
At the beginning of 2022, the Supervisor Review and Evaluation Process ('**SREP**') will begin. The March update of the SREP Guidelines noted that inclusion of ESG considerations will be handled in a later review of the SREP Guidelines.	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.

Item	Initiative and description of key policy objectives	Key actions for AFME members
ECB's Report on the supervisory review of banks' approaches to manage climate and environmental risks	On 22 November 2021, the ECB published a report entitled 'The state of climate and environmental risk management in the banking sector'. The report assesses banks' progress in meeting the ECB's supervisory expectations set out in its Guide published last November, and the report sets out what the ECB regards as good practices in different areas. The key conclusions highlighted from the report are as follows: • No supervised bank is close to meeting all the ECB expectations on climate and environmental risks • Banks have developed plans to improve practices, but progress is too slow • Supervisors have informed banks of main shortcomings, with full review of practices in 2022 The report also highlights that the ECB is committed to continuing its supervisory dialogue with banks and will gradually integrate climate and environmental risk into its SREP methodology. This will eventually influence Pillar 2 capital requirements. Following the report, several key steps will be taken: • Supervisors are currently investigating banks' climate and environmental risk disclosures. The ECB will publish its findings in an updated report on climate and environmental disclosures in the first quarter of 2022, together with individual feedback to banks. • The ECB will conduct a full review of how prepared banks are to manage climate and environmental risks, with deep dives into their incorporation into strategy, governance, and risk management. The review will take place in the first half of 2022, in conjunction with the ECB's supervisory stress test on climate-related risks. The banks will receive a request for information towards the end of 2021. The results of the thematic review undertaken following this report were published in November in the ECB's "Walking the Talk" report.	AFME members will need to comply with the ECB's supervisory expectations as to how banks should manage climate and environmental risks. AFME members might be expected to respond to the ECB's review into banks' climate risk disclosures. The ECB will also be reviewing members' strategy, governance, and climate risk management in early 2022.
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
The report was published on 22 November 2021. The ECB has conducted a thematic review of banks' practices in 2022. A report ("Walking the Talk") on the outcomes of the review was published in November 2022. This set some important deadlines for ECB banks: • By March 2023: full assessment and categorisation of C&E risks on bank's activities • End 2023: manage C7E risks with institution-wide approach End 2024: full alignment with all supervisory expectations on C&E risks outlined in the ECB's 2020 Guide on climate-related and environmental risks.	Whole bank	Whole bank	EU
To be implemented asap after publication of the guide.	Whole bank	Whole bank	Austria

Item	Initiative and description of key policy objectives	Key actions for AFME members
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. Since the report, the PRA has published its Dear CEO letter setting out observations of banks' embeddedness of climate-related financial risk. Observations relate to governance (board oversight and SMF), risk management, scenario analysis, disclosure, data, and climate and accounting.	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.
Basel Committee Principles for the effective management and supervision of climate-related financial risks	The purpose of these principles is "to promote a principles-based approach to improving both banks' risk management and supervisors' practices" Even though the existing Basel Framework, namely the Core Principles for effective banking supervision (BCPs) and the supervisory review process (SRP), is considered broad and flexible enough to also cover the measures necessary to take into account climate-related financial risks, the Committee concluded that additional guidance would foster the alignment of supervisory expectations. The publication encompasses 12 principles addressed to banks and 6 principles addressed to prudential supervisors, each referring to the corresponding principles in the BCP and SRP and all intended to be applied in a proportionate manner. The areas covered by the principles include corporate governance, internal controls, risk assessment, management and reporting. In the EU, the principles are largely aligned with approaches already taken by EU authorities such as the ECB's guide on climate-related and environmental risks and through the proposed CRR amendments. In the UK, the principles are broadly also in line with the supervisory approach set out by the Bank of England in its Climate Change Adaption Report 2021 when combined with the TCFD disclosure obligations. So it remains to be seen whether there will be any further implementation measures.	TBC – at this stage likely that compliance with existing / coming national regulatory requirements will be enough for national regulators to have satisfied these Principles.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
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 here 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
After a consultation that opened in November 2021, these Principles were issued in June 2022. The Committee expects the Principles to be implemented by national regulators as soon as possible, although given similar measures already in place or proposed in the EU and the UK, it remains to be seen whether any further implementation measures will emerge in either of those.	TBC	TBC	Global

Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability benchmarks		
The Low Carbon Benchmarks Regulation forms part of the trio of EU sustainable finance legislation that applies to various types of financial market participants. It amends the Benchmarks Regulation by attempting to increase transparency around the consideration of ESG factors in financial benchmarks and by creating new regulated categories of climate change focussed benchmarks, namely the EU Climate Transition Benchmark and the EU Paris-aligned Benchmark.		
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. This is where the EC's Handbook on Climate Benchmarks and benchmarks' ESG disclosures can be useful.

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

Item	Initiative and description of key policy objectives	Key actions for AFME members
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.
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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
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
Has applied in the UK from the end of the Brexit transition period. Administrators of significant benchmarks in the UK were to "endeavour" to provide one or more EU Climate Transition Benchmarks by 1 January 2022.	UK benchmark administration business	See LCBR row above.	UK

Item	Initiative and description of key policy objectives	Key actions for AFME members
Frameworks, standards and labels		
In order to fully embed the principles and objectives of the core SF legislative framework across the breadth of the financial markets, additional frameworks and standards, both mandatory and voluntary, are developing rapidly. Affecting many areas of AFME member business, these include the development of the EU's Green Bond Standard (with the UK indicating potential future reforms in this space), amendments to the EU's securitisation regime, a tightening of the Ecolabel's regime to identify "super green" products and integration of sustainability considerations into lending activities.		
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 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 templates for voluntary disclosures by issuers of green, sustainable or sustainability-linked bonds, as well as 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 – 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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The European Parliament and Council have now adopted a provisional agreement following trilogue negotiations commenced in summer 2022.	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. Additionally, if the proposal to create a disclosure regime is taken forward in the final text, this would impact all green bond and sustainability-linked bond issuances marketed in the EU, which could have a significant impact on this market. 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)

Item	Initiative and description of key policy objectives	Key actions for AFME members
UK green bond reforms	On 29 June 2022, the FCA published its Feedback Statement (FS) on ESG integration in UK capital markets following the discussion chapter in its 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 set out further detail of its approach in Primary Market Bulletin 41 (PMB) which has been published alongside the Feedback Statement. In the PMB, the FCA: • Encourages issuers of ESG-labelled "use of proceeds" debt instruments to consider voluntarily applying or adopting relevant industry standards, such as the Principles and Guidelines that the International Capital Market Association (ICMA) has developed for green, social, and sustainability bonds; • Reminds issuers, their advisors and other relevant market participants of their existing obligation to ensure any advertisement is not inaccurate or misleading, and is consistent with the information contained in the prospectus; and • Encourages issuers and their advisors to consider verifiers' and assurance providers' expertise and professional standards, and to engage with SPO providers and verifiers who adhere to appropriate standards of professional conduct, such as ICMA's Guidelines for External Reviewers. The FCA has not proposed rule changes as yet, noting that they are taking a measured approach to ESG-labelled debt instruments, with the aim of setting clear guard-rails as the market continues to develop. However, the FS includes an indication of future direction, stating that: • in relation to bond frameworks, prospectuses and bond standards, as part of HMT's wider Prospectus Regulation Review, the FCA may assess in the future, the case to develop an appropriate standard for "use of proceeds" bonds but is not currently proposing to develop a UK version of the EU Green Bond Standard; • the FCA may consider further the case for regulatory oversight of verifiers and SPO providers in the future; and • regarding climate-related disclosures for listed issuers of debt, the FCA will consider the best way to strengthen and promote transparency on sustainability representations by debt issuers, including in the context of the Prospectus Regime Review.	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
The FCA consultation on enhancing climate-related disclosures ran until 10 September 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

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.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The European Commission Listing Act consultation, covering the Prospectus Regulation, among others, closed on 25 February 2022. The consultation provided no indication that the Prospectus Regulation will be used as the vehicle to embed further disclosure requirements for green, social and sustainable securities. It seems that disclosure requirements for green, social or sustainable securities may be subsumed by the EU Green Bond Standard (see above). Certain amendments put forward by the European co-legislatures to the EU Green Bond Standard would require an EuGB issuer to fully integrate the EuGB factsheet in a prospectus prepared pursuant to the EU Prospectus Regulation. Also in this space, the Commission has proposed further measures to simplify company listings and capital raises, in the form of the proposed EU Listing Act. The proposal was put forward on 7 December 2022, with the consultation ending on 7 February 2023. The co-decision process between the Parliament and the Council then follows. This legislation is at early stages and how long it will be before it is enacted is uncertain at this stage.	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.	EU
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

Item	Initiative and description of key policy objectives	Key actions for AFME members
Securitisation	In July 2021 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. On 2 May 2022, the ESAs published, within their Consultation Paper on STS securitisation-related sustainability disclosures, draft RTS on the content, methodology and presentation of information in respect of sustainability indicators for Simple, Transparent and Standardised (STS) securitisations. Under the Capital Markets Recovery Package, the Securitisation Regulation was amended to introduce new optional disclosure provisions for STS securitisations concerning the principal adverse impacts (PAI) of the assets financed by the underlyings on sustainability factors. Previously, this was reserved on a mandatory basis only for securitisations with underlyings of certain asset classes (residential real estate and motor vehicle financing). Such disclosure is intended to assist investors in measuring and comparing the negative impacts on sustainability factors caused by the assets financed by the underlying exposures in an STS securitisation. In light of the above, the proposed draft RTS aim to: • Facilitate disclosure by the originators of the principal adverse impacts of assets financed by STS securitisations on ESG-related factors; • Supplement the single rulebook under the Securitisation Regulation as amended by the Capital Markets Recovery Package; and • Draw upon the ESA's work in respect of sustainability-related disclosures in financial services under the SFDR. On 2 March 2022, EBA published its report on developing a specific sustainable securitisation framework to integrate transparency requirements. The report concludes that the setup of a dedicated framework for green "true sale" securitisations, green synthetic securitisations or social securitisations would be premature at this juncture. The report was heavily referenced in the Commission's October Report on the Functioning of the Securitisation Regulation. This report confirms the EBA's view that a dedicated framework is unnecessary at this point in time and supports the recommendations to: • amend the proposal for the EU Green Bond Standard Regulation (which applies to capital market products generally) such that it applies to securitisations in a manner more suitable to that type of financing; for example, by imposing the requirements of the proposed EU Green Bond Standard Regulation on the originator rather than the securitisation vehicle, such that (among other things) the originator's use of the issuance proceeds must meet the "green" criteria (even though this may result in the securitised assets themselves not being "green"); • amend the EU Securitisation Regulation to extend voluntary disclosures regarding the principal adverse impact of the underlying securitised assets on ESG factors to all securitisations, rather than only to those which qualify as simple, transparent and standardised (STS) securitisations, as is the case at present; and • consider making PAI disclosures mandatory in the medium term once the EU sustainable securitisation market has further matured.	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
The consultation period for the Commission's consultation on the functioning of the EU securitisation framework ended in July. The next step is for the final RTS on the content, methodology and presentation of information in respect of sustainability indicators for STS securitisations to be published. The EBA report on developing a specific sustainable securitisation framework was published in March 2022. The next step is for the Commission to submit a report to the Parliament and the Council, with a legislative proposal (if appropriate). Based on the outcome of this report, the Commission will submit a subsequent report to the European Parliament and the Council on the creation of a sustainable securitisation framework, together with a legislative proposal if deemed appropriate. It was expected that the Commission would publish its report by the end of Q2/2022 (but it has still not been published yet).	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

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

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 was expected to be adopted in Q4 2021, but this has been delayed.	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 provided in June 2022. There is now a call for advice to the EBA from the Commission on green retail lending. The advice must be delivered by end 2023. In assist with the call for advice, in February the EBA launched an industry survey to receive input from credit institutions on their green loans and mortgages as well as market practices related to these loans. The purpose of the survey is to collect both quantitative and qualitative information the EBA can use to advise the European Commission. The deadline for this call for input is 7 April 2023.	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

Item	Initiative and description of key policy objectives	Key actions for AFME members
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: i. internal governance and control framework for credit-granting and decision-making processes ii. requirements for borrower creditworthiness assessments by differentiating between lending to consumers, micro-enterprises, and macro-enterprise iii. supervisory expectations of the risk-based pricing of loans iv. 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 v. 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.
Sustainability in research and ratings		
EU and UK regulators have woken up to 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 horizon, with the focus on transparency, governance and conflicts of interest. In its renewed SF Strategy, the Commission identified the need for regulation in this space, and the first steps towards this is a targeted consultation on the functioning of the market for ESG 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 was followed by a consultation paper from the Commission on 4 April 2022 as well as a call for evidence for an impact assessment on the same day. This started a consultation process on the functioning of the ESG ratings market in the EU and on the consideration of ESG factors in credit ratings. A distinction must be made between so-called ESG ratings on the one side and ratings in the sense of a classic credit rating on the other side, whereby the consultation refers to both variants. ESG rating providers are currently not subject to any authorisation requirements, although according to the Commission, an increasing importance for the functionality of capital markets can be observed. With this initiative, the Commission is reacting to recommendations by IOSCOs Final Report as well as a study carried out specifically for this purpose, which suggests a regulation of corresponding activities. According to the study, deficits were found in particular about the transparency of data procurement, the underlying indicators and their weighting, the accuracy, the reliability and the danger of potential conflicts of interest due to the lack of regulation. To counteract these developments, it is proposed, among other topics, to formulate a definition of ESG ratings, to improve their transparency and comparability and to supervise the activities of corresponding providers. The situation is different for traditional ratings (credit assessments), where sustainability factors can also have an impact on creditworthiness. These are regulated based on Regulation (EC) No. 1060/2009 (CRA Regulation) and are also addressees of the corresponding ESMA guideline on the consideration of ESG criteria. However, considerable implementation deficits are discernible here in some cases. Therefore, it is proposed to improve transparency with regard to the consideration and impact of ESG risks on individual ratings and to ensure that rating agencies adequately consider all relevant sustainability risks.	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
The Guidelines have applied since 30 June 2021 for new loans and advances. They apply to already existing loans and advances that require renegotiation or contractual changes with the borrowers applied 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.
The UK is also developing its thinking: the FCA published its feedback statement to its consultation on ESG data and rating providers in June, noting a clear rationale for regulatory oversight of certain ESG data and ratings providers with potential policy developments ranging from development of a voluntary code of conduct for industry participants, to regulation of ESG data and ratings providers. If the Treasury extends the FCAs regulatory perimeter, we expect to see further work to develop and consult on a proportionate and effective regulatory regime.			
The Commission's targeted public consultation on the functioning of the market for ESG ratings closed in June. Subject to the impact assessment, the Commission planned to take action (likely to be a legislative proposal) to strengthen the reliability and comparability of ESG ratings by June 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

Item	Initiative and description of key policy objectives	Key actions for AFME members
The state of sustainability-related ratings, data and research (continued)	As potential regulatory instruments, the Commission is considering both possible ESMA guidelines and the adoption or amendment of the CRA Regulation. The (extended) consultation closed on 10 June to comments. The results for the call for advice have been answered by ESMA on 24 June 2022. On January 2021 ESMA published 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.	

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

Item	Initiative and description of key policy objectives	Key actions for AFME members
The state of sustainability-related ratings, data and research (continued)	**UK regulation of ESG ratings providers** On 29 June 2022, the FCA published its Feedback Statement 22/4 on ESG integration in the UK capital markets following the discussion chapter in its 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. The Feedback Statement notes a clear rationale for regulatory oversight of ESG data and rating providers and for a globally consistent approach, informed by IOSCO's recommendations on ESG data and ratings. The FCA will continue to work with HMT, who are considering bringing ESG data and rating providers within the FCA's regulatory perimeter. The FCA also published Primary Markets Bulletin 41 which elaborates on the FCA's response to stakeholder feedback and clarifies expectations of issuers of ESG-labelled debt instruments. If HMT extend the regulatory perimeter, the FCA will take the necessary steps to develop and consult on a proportionate and effective regulatory regime for ESG data and rating providers, with a focus on outcomes in areas highlighted in IOSCO's recommendations (which include transparency, good governance, management of conflicts of interest, and systems and controls). Noting the potential lead time until any such regime is up and running, the FCA also indicate that they would, in the interim, work with HMT to develop a voluntary Code of Conduct for industry participants with such voluntary Code potentially continuing to apply for certain ESG data and rating providers that fall outside of the scope of any future regulatory regime. A consultation is expected in June 2023	TBC in due course – AFME members that provide ESG ratings data or research within the UK are likely to be subject to such "soft" regulation (in the form of an industry Code of Conduct) and/or formal regulation.
The state of sustainability-related ratings, data and research (continued)	**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 published its Feedback Statement to its consultation on enhancing climate-related disclosures on 29 June 2022. On 22 November 2022, the FCA announced the formation of a group (including investors, ESG data and ratings providers and rated entities) to develop a Code of Conduct for ESG data and ratings providers. This group intends to meet later in 2023,when there is hopefully greater clarity as to the regulatory perimeter and a consultation is expected in June 2023 HMT announced in December 2022 that it will consult on bringing ESG rating providers within the scope of the regulatory perimeter in Q1 2023	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 closed on 6 September, and was followed by IOSC's Final Report in November, see row below.	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

Item	Initiative and description of key policy objectives	Key actions for AFME members
IOSCO's report on ESG ratings and data providers	On 23 November 2021, the International Organisation of Securities Commission ('**IOSCO**') published its final report and recommendations on ESG ratings and data product providers. The published recommendations broadly align with the draft recommendations in the Consultation Report on 26 July 2021. Annex 3 of the report includes a summary of the responses to the Consultation Paper, followed by IOSCO's response. The report proposes that regulators should consider focusing greater attention on the use of ESG ratings and data products, and the activities of ESG rating and data product providers in their jurisdictions. The report sets out recommendations addressed to ESG ratings and data providers, and proposes that different factors are considered to ensure that high quality products and ratings are issued: • Publicly disclosed data sources • Defined methodologies • Management of conflicts of interest • High levels of transparency • Handling confidential information The recommendations also suggest that users of ESG ratings and data products consider conducting due diligence on the products they use within their internal processes. The final proposal is that ESG ratings and data product providers could consider improving their information gathering processes, disclosures and communication between providers and entities subject to assessment.	TBC in due course.
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
IOSCO published a Consultation Report on 26 July 2021, containing its draft recommendations. IOSCO then published the final report and recommendations on 23 November 2021.	The report will impact data product and ESG ratings providers.	TBC in due course.	Global
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

Item	Initiative and description of key policy objectives	Key actions for AFME members
Frameworks for investing in sustainable projects		
The development of SF frameworks and standards for the financial services is accompanied by initiatives which enable member states to facilitate, by making funding available, green investing. The EU's Multiannual Financial Framework, the European Green Deal Investment Plan and the proposed Net-Zero Industry Act (which will identify clear goals for European clean tech by 2030 in a bid to focus investment on strategic projects along the entire supply chain) have been developed with this specific objective at the forefront. Whilst such initiatives are not of direct impact on AFME members, they represent the direction of travel politically, as well as presenting opportunities for AFME members' client bases.		
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

Item	Initiative and description of key policy objectives	Key actions for AFME members
Sustainability and 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. So, 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 (with the new Corporate Sustainability Due Diligence Directive being an important part of this). AFME members will need to dedicate suffice 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.		
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

Item	Initiative and description of key policy objectives	Key actions for AFME members
Proposal for a new Corporate Sustainability Due Diligence Directive	On 23 February 2022, the Commission published its much-awaited proposal for a Directive on Corporate Sustainability Due Diligence, aimed at imposing on companies of a certain size operating in the EU far-reaching due diligence obligations covering the adverse human rights and environmental impacts of their own operations, and those of their subsidiaries and their upstream and downstream value chain. In-scope companies: Companies incorporated in the EU EU companies are covered by the Proposal if they meet one of the two following thresholds: • the company had more than 500 employees on average and had a net worldwide turnover of more than EUR 150 million in the last financial year; or • the company had more than 250 employees on average and had a net worldwide turnover of more than EUR 40 million in the last financial year, provided that at least 50% of the net turnover was generated in one or more of certain high-risk sectors (i.e. the manufacture of textiles, leather and related products, and the wholesale trade of textiles, clothing and footwear, agriculture, forestry, fisheries, the manufacture of food products, and the wholesale trade of agricultural raw materials, live animals, wood, food, and beverages, as well as the extraction of mineral resources (regardless of where they are extracted), the manufacture of basic metal products, and the wholesale trade of mineral resources, basic and intermediate mineral products). The Proposal does not affect more stringent obligations provided for by other sectoral regimes targeting high-risk sectors, such as the Conflict Minerals Regulation and the Timber Regulation. Companies incorporated outside the EU Non-EU companies are also covered by the Proposal if they meet one of the two following thresholds: i. the company generates a net turnover of more than EUR 150 million in the EU market in the financial year preceding the last financial year; or ii. the company generated a net turnover of more than EUR 40 million but not more than EUR 150 million in the EU internal market in the financial year preceding the last financial year, provided that at least 50% of its net worldwide turnover was generated in one or more of the above-mentioned high-risk sectors The UK has made a statement that it does not intend to replicate this new directive, on the basis that many UK companies are already subject to similar obligations through other legislation. Given the scope of the CSDDD, some UK businesses may be subject to its obligations as well.	At this stage, it appears the proposed rules would have a significant impact on AFME members, who will have to map the human rights and environmental impacts of their operations and of the transactions they enter into or broker, and may have to take steps to prevent, cease or minimise actual impacts arising in their value chain.
Proposal for a Deforestation Regulation	On 13 September 2022, the European Parliament adopted its position regarding the Commission's proposal for a Regulation on Deforestation-Free Products. The proposal requires due diligence to be carried out before certain commodities can be placed on, or exported from, the EU market, to confirm that the commodity (and certain derived products) are "deforestation-free" and conform with the relevant legislation of the country of production. It is part of a broader EU legislative agenda tackling supply chains, including the CSDDD proposal (row above). A controversial element was the potential application of the Proposal to financial institutions. A provisional political agreement has been reached (December 2022) between the Council and the Parliament which does NOT include financial services in the scope. However, this may be reviewed in two years' time.	None. The regulation will be reviewed in two years' time. It may be worth keeping an eye on financial services scope to ensure they continue to be outside the regulation.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
The European Parliament and Council will now scrutinise and likely amend the Commission's proposal. Once they have defined their respective positions, they will try to reach a political agreement before the two institutions can formally adopt the Directive. The Council agreed its General Approach in December 2022 We are at too early a stage to be able to pin point a concrete starting time for the trilogues, but we understand from both Parliament and Council that the CSDDD is a priority file and that both institutions are working to have their negotiating position ready within the first half of 2023, with the plenary vote scheduled for May 2023 – trilogues will then likely follow.	TBC	TBC	EU
Political agreement was reached in December 2022. The next step will be for the final text to be adopted and enter into force. The regulation will be reviewed in approx. two years' time.	None.	Very limited – may be useful to be aware of the requirements of the regulation on AFME member clients who are within scope of the regulation	EU

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.

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

Item	Initiative and description of key policy objectives	Key actions for AFME members
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 11 October 2022, ESMA published a call for evidence on the implementation of certain provisions of SRD II. The provisions cover the following areas: • Identification of shareholders. • Transmission of information. • Facilitation of the exercise of shareholder rights. • Transparency of proxy advisors. 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.	
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
Switzerland – Swiss Bankers Association new minimum requirements for integrating sustainability criteria into investment and mortgage advice	The SBA has recently published two sets of guidelines in the sustainable finance space: • guidelines for the financial services providers on the integration of ESG preferences and ESG risks into investment advice and portfolio management • guidelines for mortgage providers on the promotion of energy efficiency, These are a combined package of measures to require sustainability profiling of private clients (including during the mortgage process), to ensure consistent sustainable investment product disclosure, and to provide for disclosure on forward looking climate alignment of investment products. Th SBA's self-regulation is binding and is a common concept in Switzerland. The Climate Scores are for voluntary adoption but there is a strong expectation they will become a market standard.	AFME members which have an SBA member in their group must have regard to these binding guidelines and are applicable where the Swiss bank provides private banking, investment advice and/or wealth management services to its clients.

Key milestones	AFME member direct business area impact	Indirect business area impact	Region/jurisdiction
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. Responses to the call for evidence are requested by 28 November 2022. ESMA intends to provide the European Commission with its input by July 2023.	No direct impacts unless AFME members provide investment management services		EU The UK Stewardship Code applies in the UK
Published on June 4, 2020.	Not legally binding.	Not defined.	Switzerland
Applicable from 1 January 2023	Binding where the services are provided by an SBA member bank.	n/a	Switzerland

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

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 publications include:

- Into The Wild: Why nature may be the next frontier for capital markets: The report explores how finance can be channelled to help address nature loss, provides an overview of the natural capital finance products currently in the market, highlights case studies of innovative practices by AFME members, and makes five key policy recommendations.

- European Green Securitisation Regulatory State of Play: Obstacles to growth and opportunities for leadership: The report sets out a comprehensive overview of the current European regulatory landscape for green securitisation, highlighting the challenges preventing it from fully contributing to Europe's green transition.

- ESG and the Role of Compliance: the discussion paper sets out observations on how compliance functions can support their firms in robustly and transparently managing the regulatory risks associated with ESG issues. It is intended to be a practical tool to support the thinking and enable discussions within firms on shaping the role of compliance and ESG.

- High Yield ESG Due Diligence Questionnaire: the questionnaire is intended to provide a suggested framework for market participants' ESG due diligence with respect to high yield and leveraged finance transactions, as well as guidance helpful in any capital markets transaction.

- 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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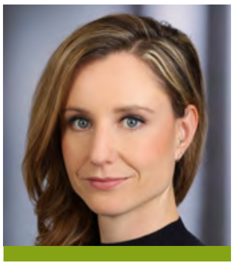

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About Linklaters

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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