



SRI

The challenge of transparency

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Need for greater transparency

Focus on ratings

Credit ratings

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

ESG ratings

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

$\text{corr}(\text{ESG ratings})=0.6$ $\text{corr}(\text{credit ratings})=0.9$

	Disagreement explained	
Scope	13%	} Rater's definition of ESG
Weight	37%	
Measurement	50%	
		→ Quality of companies' disclosures

Berg, Koelbel, Rigobon (2020)

Improving sustainability disclosure regulation

Review of Non-Financial Reporting Directive

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

SFDR Entity-level disclosures

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

CRR2 ESG disclosures

- Apply as of June 2022

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

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

Taxonomy Regulation - Amendments to Disclosure Regulation (SFDR)

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

Engaging with investee companies

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Ask larger investee companies about their **degree of Taxonomy-alignment**

- Larger investors (under NFRD) will need to disclose themselves based on Taxonomy, before disclosures by investee companies are actually available
- Larger investee companies will need to disclose this info anyway
- It's their business

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Going forward, **good stewardship**

- Support them in their transition
- The greener their business, the greener your business

A methodology to estimate Taxonomy-alignment

Alessi, Battiston, Melo and Roncoroni (2020)

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

Taxonomy-aligned investment in EU capital mkt

Sector	Bonds (€ bn)	Equities (€ bn)
Buildings	16.74	45.35
Energy Intensive	0.95	7.37
Transport	10.59	2.85
Utility	27.82	56.17

Note: Based on 2018 data.

Thank you

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