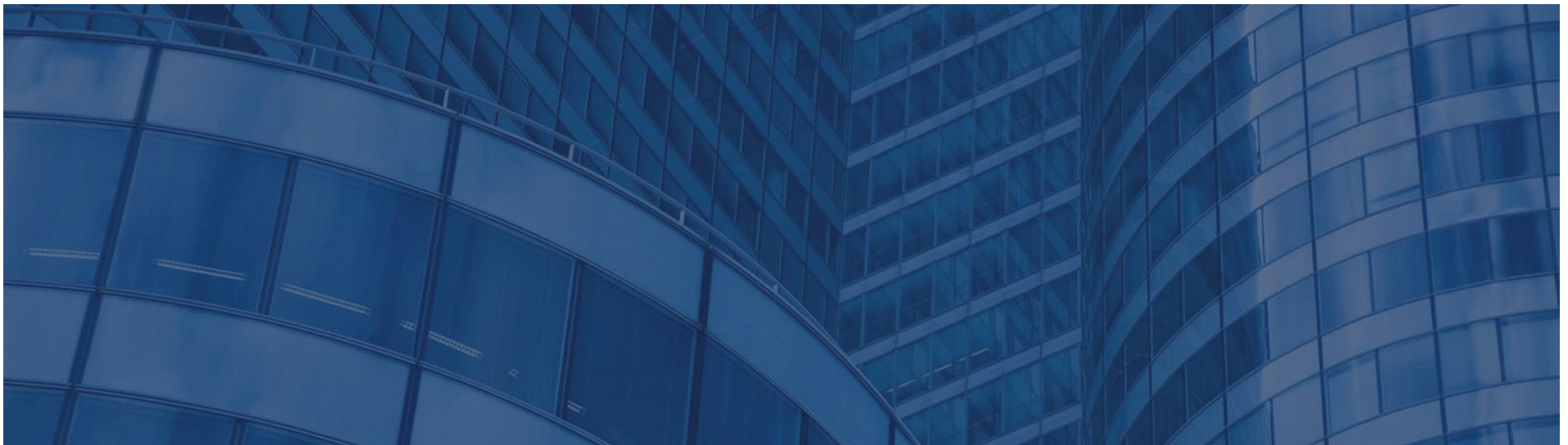


# ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) OPPORTUNITIES

**27 AUGUST 2020**



# CONTENT

**ESG consultations and EDW responses**

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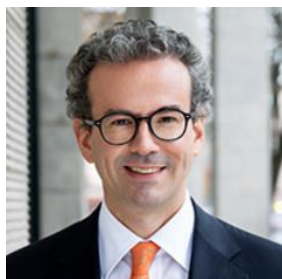
**Ongoing work with the European Commission and UniCa re ESG matrix**

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**ESG register concept and stakeholders**

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## ON TODAY'S CALL



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# ESG CONSULTATIONS AND EDW RESPONSES

# EUROPEAN COMMISSION PRIORITIES FOR SUSTAINABLE FINANCE

Sustainable finance generally refers to the process of taking due account of **environmental, social and governance (ESG) considerations** when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.

- **Environmental considerations** may refer to climate change mitigation and adaptation, as well as the environment more broadly, such as the preservation of biodiversity, pollution prevention and circular economy.
- **Social considerations** may refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues.
- The **governance** of public and private institutions, including management structures, employee relations and executive remuneration, plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.

In the EU's policy context, sustainable finance also encompasses transparency on risks related to ESG factors that may impact the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.

Sustainable finance at EU level aims at supporting the delivery on the objectives of the European Green Deal by channelling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and just economy, as a complement to public money.

[https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/what-sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/what-sustainable-finance_en)

# A European Green Deal

Striving to be the first climate-neutral continent

The European Green Deal provides an action plan to:

- boost the efficient use of resources by moving to a clean, circular economy
- restore biodiversity and cut pollution

The plan outlines investments needed and financing tools available. It explains how to ensure a just and inclusive transition.

The EU aims to be climate neutral in 2050. We proposed a European Climate Law to turn this political commitment into a legal obligation.

Reaching this target will require action by all sectors of our economy, including:

- investing in environmentally-friendly technologies
- supporting industry to innovate
- rolling out cleaner, cheaper and healthier forms of private and public transport
- decarbonising the energy sector
- ensuring buildings are more energy efficient
- working with international partners to improve global environmental standards

The EU will also provide financial support and technical assistance to help those that are most affected by the move towards the green economy. This is called the Just Transition Mechanism. It will help mobilise at least €100 billion over the period 2021-2027 in the most affected regions

## EC CONSULTATION ON THE NON-FINANCIAL REPORTING DIRECTIVE (1)

EDW has responded to the EC public consultation on the review of the Non-Financial Reporting Directive (NFRD). The deadline for the responses was on 11<sup>th</sup> June 2020.

In its response to the consultation, EDW focused on the following key points:

- **Development of a common non-financial reporting standard**

One of the main advantages of **standardisation** is the **comparability and consistency of the non-financial information**. EDW believes that the upcoming revision of the NFRD should result in the **harmonisation of the ESG reporting** reducing also the companies' reporting burden.

- In EDW's view, the responsible public body or authority for the development of this standard should have expertise also in the area of financial reporting to ensure a smooth connectivity and integration with the non-financial reporting.
- Therefore, EDW strongly supports the involvement of all the relevant European Supervisory Authorities, the ECB and the Platform on Sustainable Finance in the development of this standard.
- It is essential to involve and consult also the key market participants such as e.g. investors, reporting entities, data experts, among others, in the development of the reporting standard. This could be potentially in a form of a working or expert group in line with other regulatory frameworks and European initiatives.

<https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive/public-consultation>

## EC CONSULTATION ON THE NON-FINANCIAL REPORTING DIRECTIVE (2)

- **Digitisation of the non-financial information under the NFRD and the set up of a wider ESG data register**

The **use of a structured machine-readable format** is a necessity and consistent with other regulatory disclosure obligations, especially with respect to financial data reporting.

The **digitisation of the information** would allow the enhancement of the non-financial information with other public corporate information.

This would require also the **set up of a wider ESG data repository for all sustainability related information**, including any information that would be required to be disclosed under the EU taxonomy, with the aim to increase transparency and enhance data accessibility.

A **single centralised source of information** would be beneficial for the investors and other relevant key stakeholders such as e.g. the regulatory authorities and policy makers, leading to better investment decisions and informed policy decisions.

<https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive/public-consultation>

# EC CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY (1)

EDW has responded to the EC public consultation on the Renewed Sustainable Finance Strategy. The deadline for the responses was on 15<sup>th</sup> July 2020. Given the diversity of the topics under consultation, EDW has focused on the following topics:

## **ESG COMMON DATABASE:**

EDW is very supportive of the development of a common publicly accessible environmental data space for companies' ESG information, combining data reported under the NFRD and other ESG related reporting requirements.

This is in line with EDW's objective to foster transparency in the market.

EDW is already working on a technical solution for a common centralised repository for the collection of standardised energy efficient mortgage information based on harmonised definitions with the aim to facilitate the comparability of energy efficiency information.

[https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy\\_en](https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en)



## EC CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY (2)

### EU GREEN BOND STANDARD:

**EDW advocates the authorisation and supervision of the verifiers of EU Green Bonds and third-party service providers on ESG data**, ratings and research similar to the Credit Rating Agencies under the CRA 3 Regulation (EU) 1060/2009 or similar to the model adopted for the third-party STS verifiers under the Securitisation Regulation (EU) 2017/2402.

### OTHER STANDARDS AND LABELS TO ENERGY EFFICIENT MORTGAGE LOANS AND GREEN LOANS:

EDW strongly supports the development of those standards. **EDW actively participates at the Energy-Efficient Mortgages Initiative (EEMI, see more information in the next slide)**. This initiative is designed on the premise that the banking industry could play a game changing role in supporting the EU in meeting its EU energy savings targets and delivering on its COP21 commitments.

### GREEN SECURITISATION:

**EDW believes, as highlighted also in AFME's Green Securitisation Position Paper published in September 2019, that green securitisation can play a major role in increasing capital allocated to sustainable projects and activities**, helping the EU to meet the climate and energy targets. A number of legislative reforms are yet necessary to further improve the EU securitisation market, including a regulatory and prudential framework for green securitisation.

[https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy\\_en](https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en)

# ENERGY EFFICIENT MORTGAGES INITIATIVE – EEMAP & EEDAPP UNDER HORIZON 2020



The **Energy Efficient Mortgages Initiative** is a market-led initiative, funded via the European Commission's Horizon 2020 Programme, which aims to deliver a standardised European framework and data collection architecture for energy efficient mortgages

## Action Plan (EeMAP)

The aim of **Energy efficient Mortgages Action Plan (EeMAP)** was to create a framework for “**energy efficient mortgages**”

## Data Protocol & Portal (EeDaPP)

The **Energy efficiency Data Protocol and Portal (EeDaPP)** aims to design and deliver a **market-led-protocol** for the collection of energy efficient mortgage data through a **standardised template** which will be made accessible via the design of a **common data portal**. **European DataWarehouse** is a key development partner for the EeDaPP.

# JOINT CONSULTATION PAPER ON ESG DISCLOSURES DUE ON 1 SEPT. 2020



JOINT COMMITTEE OF THE EUROPEAN  
SUPERVISORY AUTHORITIES

JC 2020 16

23 April 2020

## Joint Consultation Paper

## ESG disclosures

Draft regulatory technical standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a, Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088

# ONGOING WORK WITH THE EUROPEAN COMMISSION AND UNICA RE ESG MATRIX

# Modeling the ESG Risk Exposure of European Banks

## PROJECT PROPONENTS

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## Modeling the ESG Risk Exposure of European Banks

<p><b>Why a framework is needed?</b></p>	<p>Currently, there are no widely accepted methodologies, overall scores and metrics for assessing financial impacts from ESG risks on banks. The tools, techniques, and methodologies currently used by practitioners to assess ESG risk vary in quality, relevance, and accuracy. A comprehensive framework to guide the development of ESG risk impact assessments could improve the ability of banks to respond to these emerging risks and to measure the overall exposure to these new categories of emerging risks in terms of financial stability.</p>
<p><b>Project Objectives</b></p>	<p>By bridging the gap between the need for a targeted disclosure framework and of a financial risk assessment, this research project aims to develop and test a first-generation matrix able to capture the overall ESG risks exposure of the European banks both at individual-level and banking system-level.</p>
<p><b>Structure</b></p>	<p>The research project is organized around 3 work packages (WPs) and will be developed in 15 months.</p> <p style="text-align: center;"><b>WP1: Drafting the ESG factors/exposure matrix</b></p> <p>During WP1, the project will:</p> <ul style="list-style-type: none"> <li>- (Task 1.1) review how the main ESG data providers (eg. Bloomberg, Thomson Reuters, Sustainalytics, MSCI, FTSE Russell) build their ESG scores and what they consider relevant for the banking sector.</li> <li>- (Task 1.2) design a preliminary ESG factor/exposure matrix targeted to consider the main characteristics of the banking activity.</li> </ul> <p style="text-align: center;"><b>WP2: Fine tuning the ESG factors/exposure matrix</b></p> <p>During WP2, the project will:</p> <ul style="list-style-type: none"> <li>- (Task 2.1) preliminary test, by using a pilot survey with a selected panel of banks and experts, the ESG factor/exposure matrix in order to investigate if and how each of the selected ESG item is relevant for the banking sector.</li> <li>- (Task 2.2) identify, by moving from the tested version of the ESG factor/exposure matrix, the main accounting items in which each factor may impact (both directly and indirectly).</li> </ul> <p style="text-align: center;"><b>WP3: Testing the ESG factors/exposure matrix</b></p> <p>During WP3, the project will:</p> <ul style="list-style-type: none"> <li>- (Task 3.1) preliminary test, by using a pilot survey with a selected panel of banks and experts, the ESG factor/exposure matrix and their ability to capture the overall ESG risk exposure of banks using the selected set of accounting items.</li> <li>- (Task 3.2) provide a final, tested and feasible ESG factors/exposure matrix</li> </ul>

# ESG REGISTER CONCEPT AND STAKEHOLDERS

# CENTRALIZED DOCUMENTATION REPOSITORY FOR NON-FINANCIAL REPORTING

The European Commission issued a **consultation on the revision of the Non-Financial Reporting Directive** (NFRD) with an extended deadline on 11 June 2020.

The consultation is structured in eight sections. The key areas focus on:

- Standardisation of reporting with the potential development of a common reporting standard
- Digitalisation of the information to be reported
- Structure and location of non-financial reporting

## HOW CAN ED HELP:

- European DataWarehouse has a strong experience in collecting documentation in various formats (e.g. Word, PDF, Excel, CSV, XML)
- The documentation can be uploaded on regular basis (monthly, quarterly, semi-annually or annually)
- Multiple files can be uploaded one by one or in bulk (e.g. API) with a timestamp
- The documentation can be stored in a
  - private area (i.e. with access controls); or
  - public area (available to registered users such as institutional investors).
- The documentation can also be digitalised, if necessary
- Once companies' ESG data is harmonised, standardised and consistent in a comparable format, it could be compared across submissions, companies and jurisdictions



## QUESTION (14) ON COMPANY REPORTING AND TRANSPARENCY (1)

The European Commission issued a **consultation on the Renewed Sustainable Finance Strategy** in April with responses due on 15 July 2020.

The consultation includes a section on: Corporate reporting and transparency (Question 14);

*In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?*

### KEY PRINCIPLES OF THE ESG DATA REGISTER

- **Centralisation** – all ESG documentation (ESG ratings, EU taxonomy, financial information) should be collected into one European centralised database for all European companies;
- **Proportionality** – the information should be collected on a sector by sector basis, striking the right balance between simple structures, processes and methodologies over time to cope with time horizons associated with sustainability risks and in particular the risk management systems;
- **Comparability** – a centralised repository facilitates the comparison of ESG information across submissions and sectors;
- **Data harmonisation and standardisation** – the ESG documentation should be based on a single reporting framework. Such framework should include minimum reporting templates with taxonomies and KPIs like in the EU taxonomy.
- **Data validation and integrity** - the information submitted should be subject to upfront checks to make sure that the information reported is complete, timely and correct.

## QUESTION 14 ON COMPANY REPORTING AND TRANSPARENCY (2)

*In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?*

### ESG REGISTER SUPERVISION

- The ESG register should be a supervised entity from the European Securities and Markets Authority (ESMA)
- ESMA has been implementing the Securitisation Regulation (EU) 2017/2402 (Regulation). As part of the Regulation, originators, sponsors and the SSPEs are to make available information on securitisations via a securitisation repository.
- European DataWarehouse (ED) intends to register with ESMA to provide securitisation repository services

### ACCESS TO ESG INFORMATION

- Access to ESG information should be free or at a reasonable cost regulated from a specific agreement with the register.
- The agreement should regulate the use of the ESG data in compliance with the existing regulations and in particular the General Data Protection Regulation (GDPR).

### ESG REGISTER BUSINESS MODEL

- The ESG register business model should be based on a non-discriminatory pricing model.
- For example, the ESG register could include an initial registration plus an annual fee taking into consideration the size or annual turnover of corporations (small, medium and large companies for example).
- The registration process should include some basic information plus a know your customer (KYC) process based on the legal entity identifier (LEI) code (20-digit long).
- The ESG fees should be based on a cost plus approach.

# ESG REGISTER STAKEHOLDERS – POTENTIAL SOLUTION

## PUBLIC PRIVATE PARTNERSHIP

This could be a model solution with the technology provided from the private sector and the public sector could build the appropriate incentives. The ESG register should be upgraded and updated on a regular basis while maintaining a cost plus approach

## PRIVATE OWNERSHIP

It could be potentially easier to manage an open ownership structure potentially non-for profit (such as a Verein in Germany) where there are no barriers to entry for a minimum number of shares. One single shareholder should be prevented from managing the entire platform on its own

## PUBLIC OVERSIGHT

The legal and regulatory environment could be created from the authorities for a regular oversight of the operations as well as development of the core and ancillary services and products

# UPCOMING WEBINARS AND EVENTS

Registration links available at <https://eurodw.eu/news-events-and-multimedia/events/>

<b>08 September</b>	<b>Credit Performance Insight with Deloitte</b>
<b>15-17 September</b>	<b>Global ABS Online</b>
<b>23 September</b>	<b>Implementation of the EU Securitisation Regulation in Australia</b>
<b>1-2 October</b>	<b>TSI Online and in Berlin</b>
<b>13 October</b>	<b>UK Virtual Workshop</b>
<b>15 October</b>	<b>Italian Virtual Workshop</b>
<b>20 October</b>	<b>German Virtual Workshop</b>
<b>22 October</b>	<b>Spanish Virtual Workshop</b>
<b>03 November</b>	<b>Dutch Virtual Workshop</b>
<b>05 November</b>	<b>French Virtual Workshop</b>
<b>10 November</b>	<b>Portuguese Virtual Workshop</b>
<b>12 November</b>	<b>Irish Virtual Workshop</b>

# THANK YOU//CONTACT US

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