

# DISCLOSING ENVIRONMENTAL OBJECTIVES AND CHARACTERISTICS OF INSURANCE PRODUCTS: THE ESAS' REQUIREMENTS FOR TAXONOMY-RELATED PRODUCT DISCLOSURES

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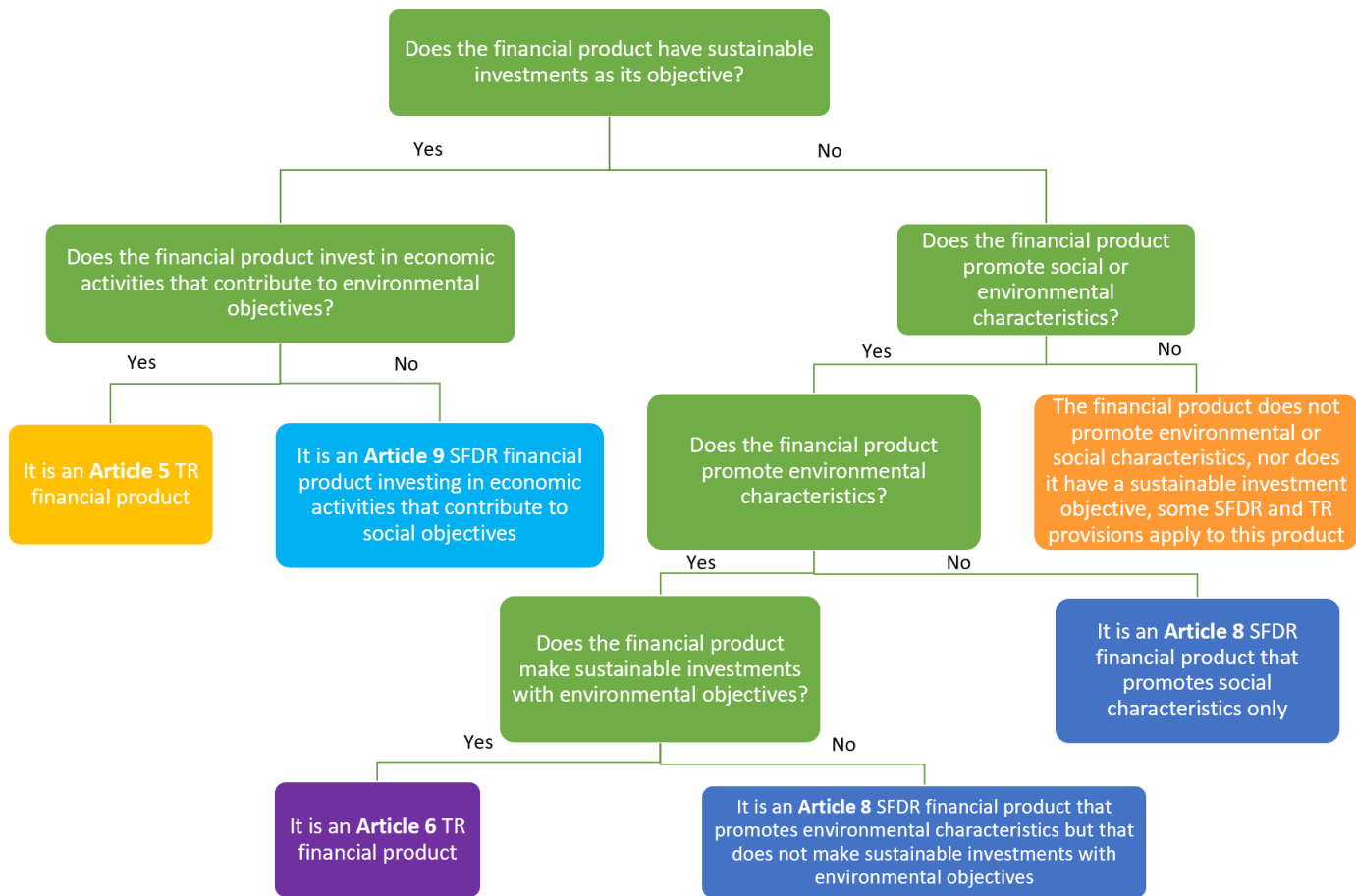
# 1. SFDR AND TAXONOMY REGULATION

- To **prevent greenwashing and improve comparability of products**, Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”) sets out ESG disclosure requirements for a broad range of financial market participants, financial advisers and financial products supplementing existing rules.
- Regulation (EU) 2020/852 (Taxonomy Regulation, “TR”) added new empowerments for the ESAs **product disclosures for products which make environmentally sustainable investments by amending the SFDR**. The ESAs chose to amend their own 4 February RTS to fulfil the new empowerments.
- EBA, EIOPA and ESMA (the ESAs) published:
  1. On 4 February 2021 draft Regulatory Technical Standards (RTS) under the SFDR on:
    - **Entity-level disclosure** of principal adverse impacts of investment decisions
    - **Product-level pre-contractual and periodic disclosure** on sustainability characteristics and objectives.
  2. On 22 October, the ESAs’ published a Joint Final Report on Taxonomy-related product disclosures which included the draft RTS.

## 2. CLASSIFICATION OF PRODUCTS

Art 5 and 6 TR are a sub-set of SFDR products -

Include those making investments with environmental investment objective



### 3. DRAFT RTS UNDER THE TAXONOMY REGULATION

- The content of the Taxonomy-disclosures draft RTS include:
  - For the subset of financial products that make sustainable investments with environmental objectives, requirements to disclose the **environmental objectives** the investments contribute to and **how and to what extent** the investments are taxonomy-aligned
  - amendments to the existing SFDR RTS **mandatory product templates** for pre-contractual and periodic disclosures to provide new sections for the relevant subset of products making Taxonomy-aligned investments

## 4. TAXONOMY RTS: KEY ISSUES

- ESAs propose to measure the taxonomy-alignment of the financial product by:
  - Pre-contractually requiring to disclose **one KPI**, turnover-based by default
  - Periodically requiring to disclose al **3 KPIs** – turnover, capital expenditure and operational expenditure
- **The KPI(s) is to be disclosed in two graphs:**
  - **One shows** the share of the product's investments that are directed at funding economic activities that qualify as environmentally sustainable (numerator), in relation to the total investments of the product (denominator), **including all investments of the financial product.**
  - **A second graph** replicates the first one but **excludes all sovereign exposures**

# 5. TEMPLATE EXTRACT

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system, establishing a list of **environmentally sustainable economic activities**. For the time being, it does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Product name: [complete]

Legal entity identifier: [complete]

## Environmental and/or social characteristics

Does this financial product have a sustainable investment objective? *[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]*

Yes

No

It will make a minimum of sustainable investments with an environmental objective: \_\_\_%

in economic activities that qualify as environmentally sustainable under the EU Taxonomy

in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

It will make a minimum of sustainable investments with a social objective: \_\_\_%

It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of \_\_\_% of sustainable investments

with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

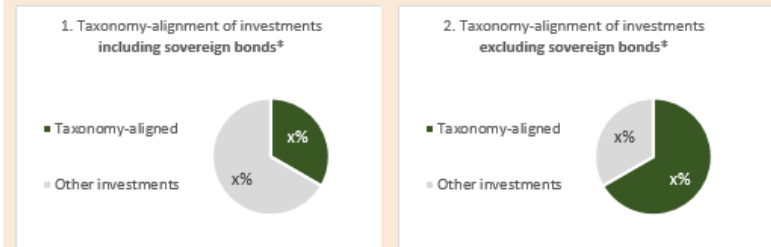
with a social objective

It promotes E/S characteristics, but will not make any sustainable investments



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy-alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy-alignment only in relation to the investments of the financial product other than sovereign bonds.



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

● What is the minimum share of investments in transitional and enabling activities?



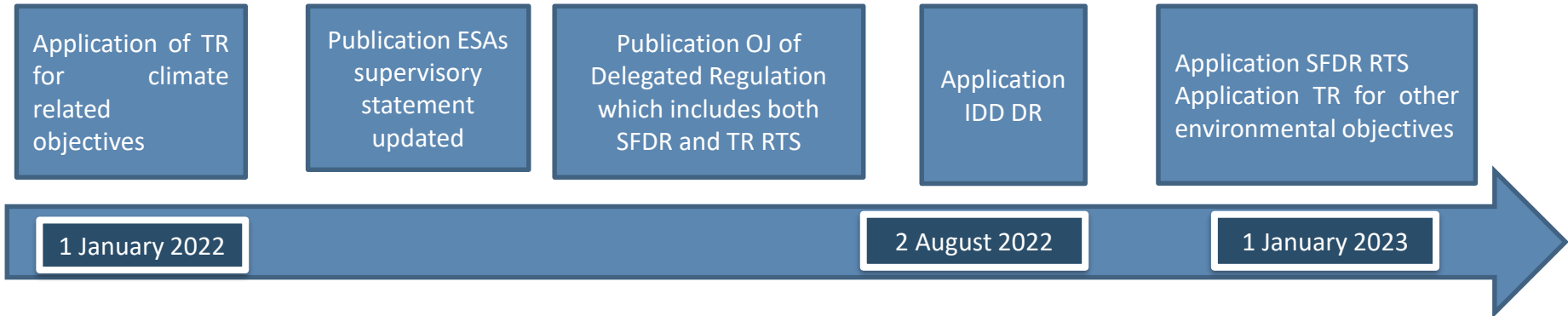
What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?



What is the minimum share of socially sustainable investments?

## 6. NEXT STEPS

- As of 1 January firms expected to comply with the TR Level 1 requirements:
  - Publication of quantitative representation on taxonomy-alignment
  - ESAs expect firms not to use estimates and disclose only on Taxonomy-alignment, not eligibility
- ESAs to publish Q&A on practical application of SFDR and update Supervisory Statement
- COM will establish minimum sustainability criteria for financial products that promote environmental or social characteristics





# THANK YOU!

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