EU TECHNICAL EXPERT GROUP ON
SUSTAINABLE FINANCE

Interim report on Climate Benchmarks and Benchmark ESG Disclosures

OVERVIEW

1. What is the task of the TEG?

On 25 February 2019, co-legislators agreed to amend Regulation (EU) 2016/1011, introducing two types of climate benchmarks and ESG disclosures for all benchmarks (excluding interest rate and currency benchmarks). In that context and as part of the empowerments laid down in the amending Regulation, the TEG has to suggest minimum technical requirements for both climate benchmarks and technical advice on ESG disclosures, including associated disclosure templates.

2. What are the TEG's main recommendations/key conclusions?

Key features of climate benchmarks.

Several criteria have to be met to qualify as an EU Climate Transition Benchmark (EU CTB) or an EU Paris-Aligned Benchmark (EU PAB):

- Climate benchmarks must demonstrate a significant decrease in overall GHG emissions intensity compared to their underlying investment universes or parent indices. This assessment must gradually integrate Scope 3 emissions during a four-year period for sectors where the impact on climate change is significant but located outside of direct operational boundaries (such as Oil & Gas and transport). This minimum relative decarbonization is set at 30% for EU CTBs and 50% for EU PABs.

- Climate benchmarks must be sufficiently exposed to sectors relevant to the fight against climate change. In other words, decarbonization cannot happen through a shift in the allocation from sectors with high potential impact on climate change and its mitigation (e.g. energy, transport, manufacturing) to sectors with inherently limited impact (e.g. health care, media). The exposure to 'high impact sectors' must therefore be at least the exposure of the underlying investment universe or parent index.

- Climate benchmarks must demonstrate their ability to reduce their own GHG emissions intensity on a year-on-year basis. This minimum 'self-decarbonization' rate has been set in accordance with the global decarbonization trajectory implied by IPCC's most ambitious scenario: 1.5°C with no or limited overshoot (*see fig. 1*).

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- When a “green to brown share ratio” is calculated by benchmark administrators based on an estimation of the green and brown shares of revenues from underlying issuers, relatively to the underlying investment universe or parent index, this ratio must be at least equal for EU CTBs and multiplied by at least 4 for EU PABs.

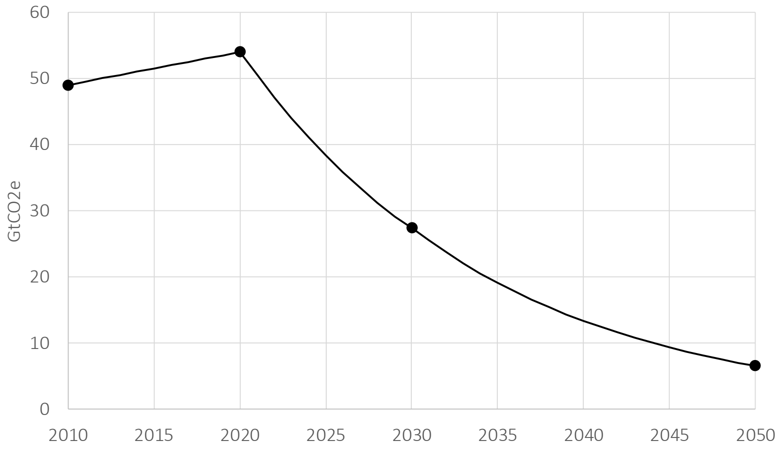

Figure 1: Worldwide emissions trajectory, based on data from IPCC AR5 Climate Change 2014 Synthesis Report, IPCC SR15 report Chapter 2 and Global Carbon Budget, 2018

Benchmarks ESG disclosures.

The new disclosure requirements apply to a wide range of indices available on the market in relation to different underlying asset classes. The TEG proposes to set out disclosure requirements based on how the market currently understands that ESG and climate-related considerations can be integrated in the valuation of assets across various asset classes. The recommendations on minimum disclosures for the methodology document and specifications for the benchmark statements therefore vary based on the maturity of ESG data and considerations in a given asset class. As a result, indicators are put forward by asset class. ESG disclosure templates are outlined, as well as specifications for the publication of ESG information.

Paris alignment.

Regarding the requirement to disclose an assessment of ‘Paris alignment’ for each benchmark, the TEG is aware that no broadly accepted and established framework has yet emerged for measuring the alignment of an investment portfolio with a temperature scenario. Hence, in the interim report, the aim is to address specific elements of the emerging market practice of measuring the Paris alignment of investment portfolios. In particular, the focus is on transparency regarding the choice of scenario and the data source and methodology used to measure an index’ alignment with a given scenario.

3. What are the next steps?

The publication of the interim report will be followed by a six weeks’ call for feedback, where market participants and stakeholders will be asked to provide feedback. Following this, the TEG will publish a final report in September 2019, which will serve as a basis to the drafting of delegated acts by the Commission. The delegated acts are expected to be adopted by early 2020.