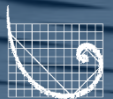


EU Green Deal and its Practical Implications



ERM

A service within ERM's M&A, ESG Advisory and Sustainable Finance global offering

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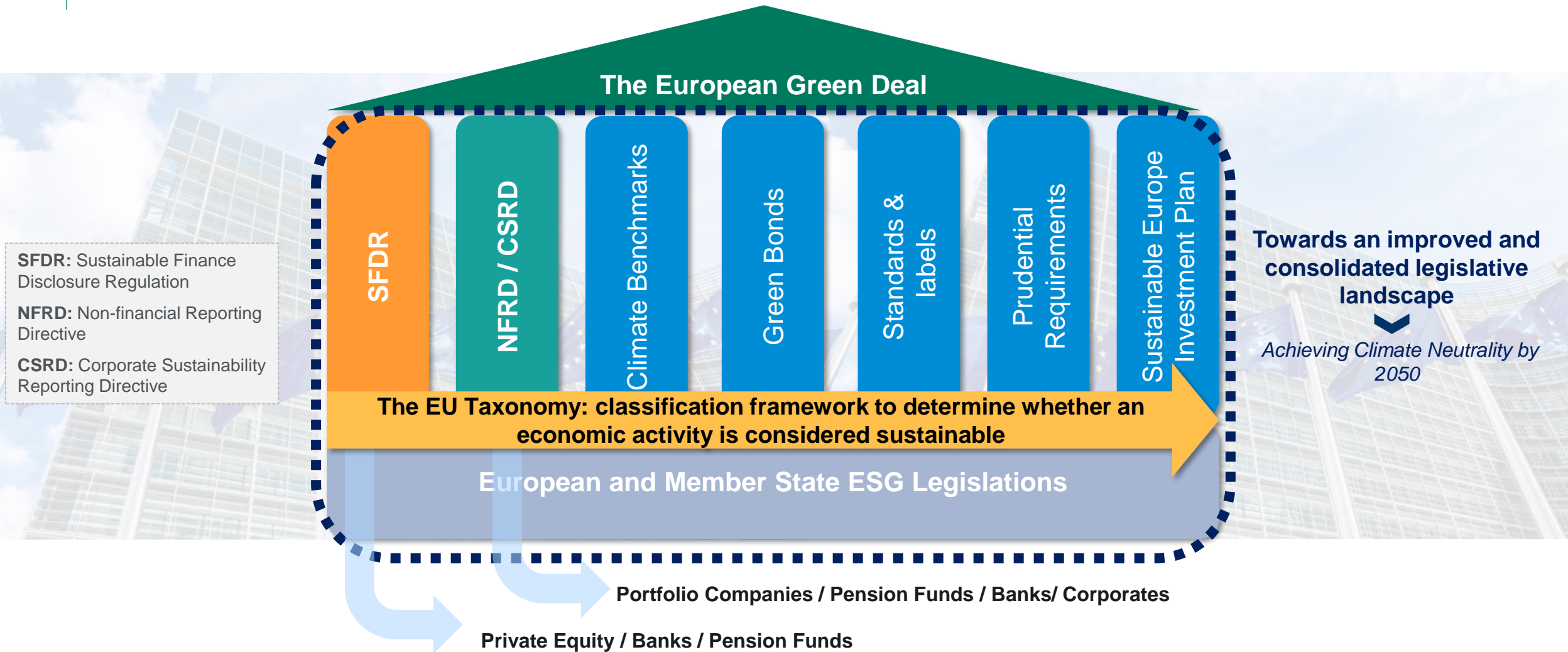


Context

High level context on Sustainable Finance and EU Taxonomy

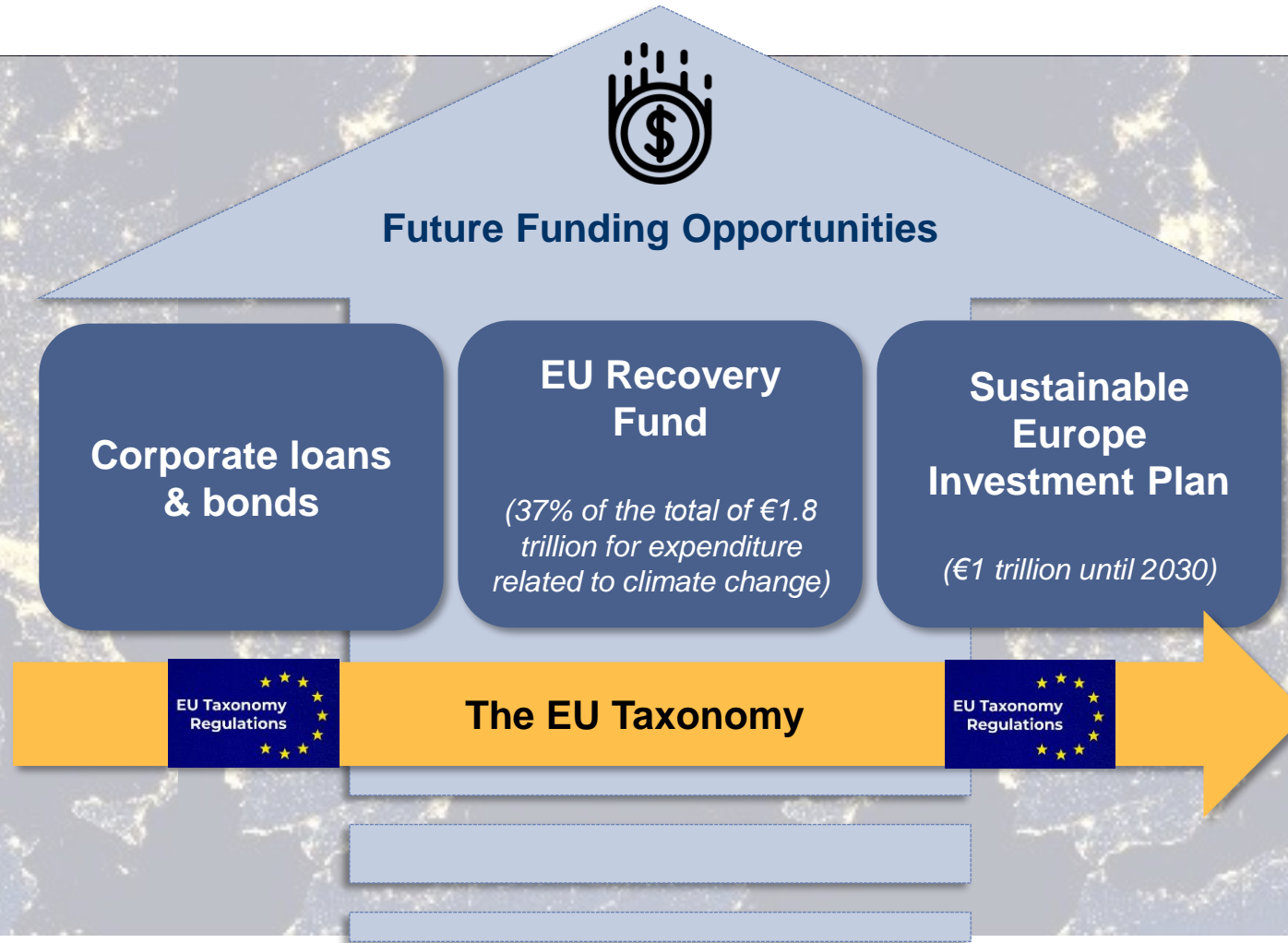
A dynamic EU Regulatory landscape driving the global Sustainable Finance Agenda

Making Europe Resilient



Access to low interest funding

Taxonomy as the reference framework



Reporting & disclosure implications for Corporates & Finance Sector Firms



Implications for Financial Sector Firms

Implications for Corporations/ Portfolio Company

EU Taxonomy

- Required to **complete first set of disclosures against Taxonomy covering activities that substantially contribute to Climate Change mitigation and adaptation by end of Dec 2021**
- Disclosure of weighted average of the value of investments in Taxonomy-aligned economic activities of investee companies

- Required to **complete first set of disclosures against Taxonomy covering activities that substantially contribute to Climate Change mitigation and adaptation during 2022**
- Disclosure of proportion of turnover from products or services and Capex or Opex associated with Taxonomy-aligned economic activities

Sustainable Finance Disclosure Regulations (SFDR)

- **Website and pre-contractual document disclosure on how sustainability risks and consideration of principal adverse impacts on sustainability factors are incorporated into investment decisions**
- **For certain products** that promote environmental or social characteristics, or have as its objective to invest in sustainability activities – **additional disclosures as to how products meet their sustainability objectives in pre-contractual, periodic reporting and website disclosures**
- For product level disclosures - link back to the EU Taxonomy framework of how the sustainable investment complies with the DNSH principle

- **Only relevant to PCs who must provide KPI data to their investor to satisfy the FMP SFDR disclosure and reporting obligations**

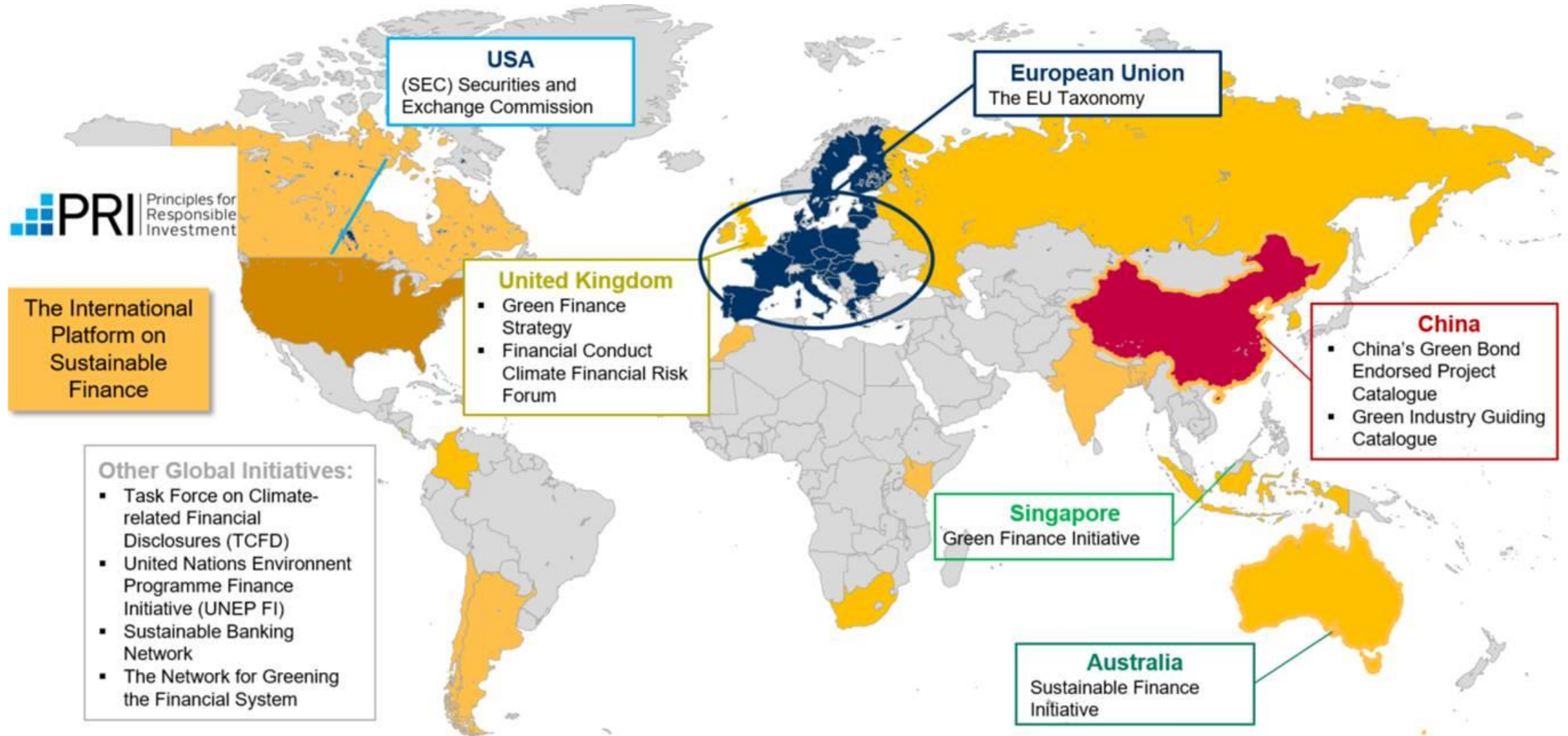
Corporate Sustainability Reporting Directive (CSRD)

- **Large banks and large insurance companies (whether listed or not) are in scope.**
- Relevant to Private Equity funds' investee portfolio companies. **FMPs will want to align KPI data requested for SFDR with that of CSRD**

- Any EU listed company with >10 employees with a turnover of >2M, or any EU company that meets 2 of 3 criteria: >250 employees, turnover >40M or balance sheet >20M – **must report in annual Management Report on sustainability factors (scope still to be defined)**

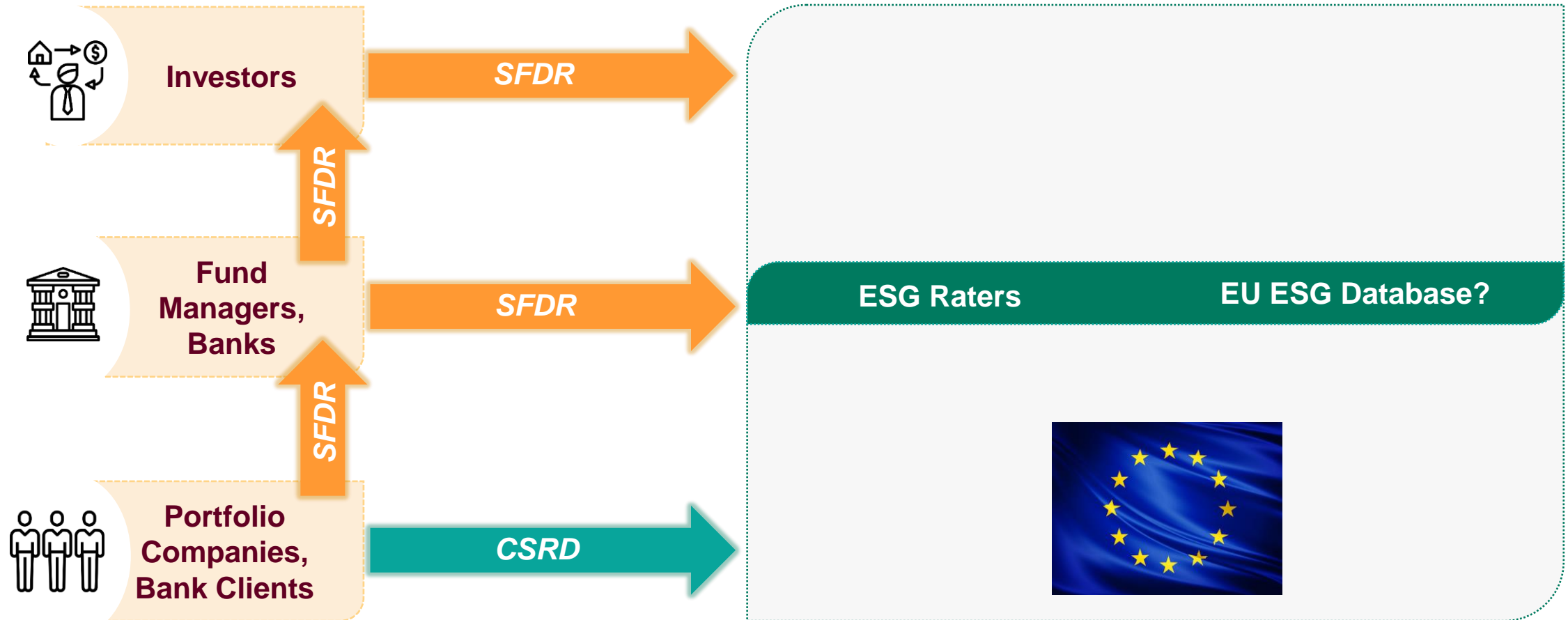
Not starting from scratch - alignment with other existing voluntary disclosure frameworks (e.g. TCFD, GRI, SASB)

This is not just European, it is globally relevant

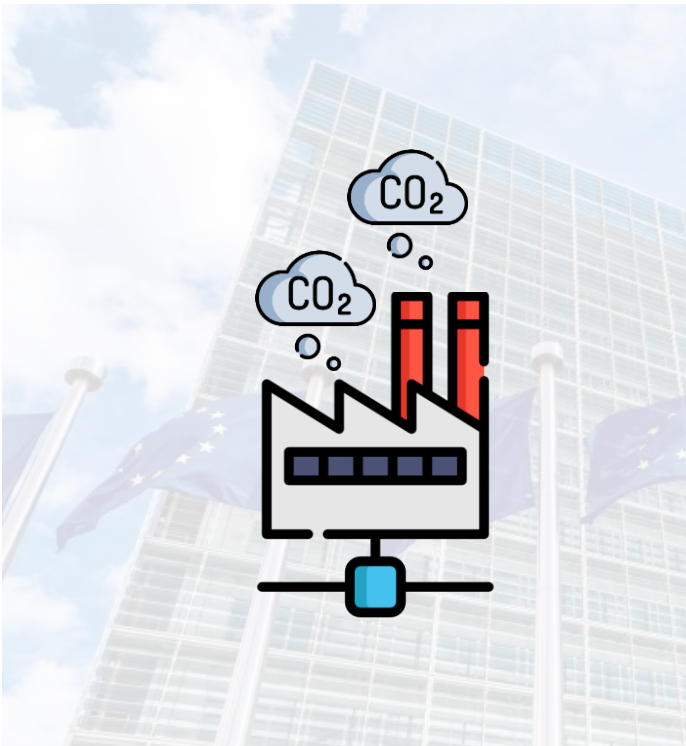


How will the future look like?

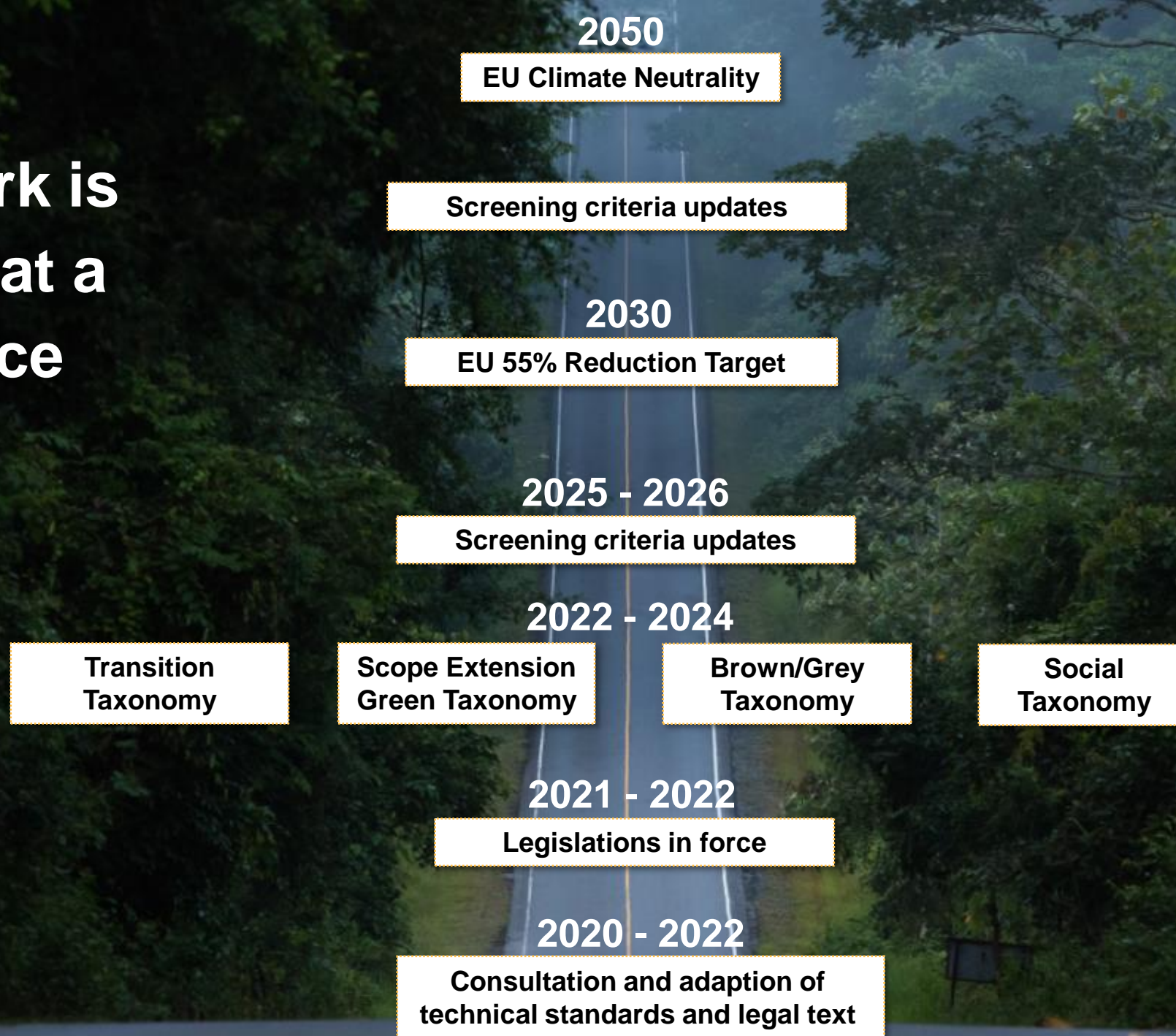
Increase value of your company via ESG data



EU ETS Carbon Prices



**Framework is
evolving at a
high pace**





Practical Implications

High level context on Sustainable Finance and EU Taxonomy

Decision Tree

1

Check whether the operations of the company/project fall under scope of the EU Taxonomy? Is it eligible by being within one of the 70 sectors?

NO

YES

Check these two documents
 i) Taxonomy Delegated Act 2021-2081 – Annex 1 - CC Mitigation criteria¹
 ii) EU Taxonomy compass excel²

2b

Statement that activity is out of scope of Taxonomy, including identification of why:

- Activity Inherently unsustainable
- Not high priority (e.g. low carbon)
- Under political debate

Or consider running a qualitative alignment assessment
 Consider whether to proceed with investment

2a

Run a Taxonomy assessment based on technical criteria available. For areas where no criteria is available conduct a qualitative Taxonomy assessment

- Climate change mitigation
- Climate change adaptation
- Sustainable use & protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

3

Does it Substantially Contribute to CC Mitigation or Adaptation?

Substantial Contribution to one of the objectives

Low carbon OR enabling activities

Adapted OR enabling adaptation

Not applicable

Not applicable

Not applicable

Not applicable

(Not applicable currently, as not yet defined)

4

Does it meet the DNSH³ criteria?

DNSH* to other 5 objectives

Not applicable

Reducing physical climate risks or supporting system adaptation

Not detrimental to water bodies

Not using non-renewable energy and material resources. Has recyclable products and waste

Not leading to a significant increase in emissions to air, water, land, etc.

Not detrimental to the ecosystems, habitats and species

³: Do no significant harm

5

Does it meet the Minimum Social Safeguards?



Is the economic activity in jurisdictions with low social standards? Are necessary policies in place? (see OECD MNEs guidelines and UNGPs). **This is a compliance obligation.**

6

Outcome (aligned or not) to feed into investment decision

Insights from the PRI Taxonomy Practitioners Group



> 40
investment managers
and asset owners

**Voluntary tested the alignment
of selected investment
products with the EU taxonomy**

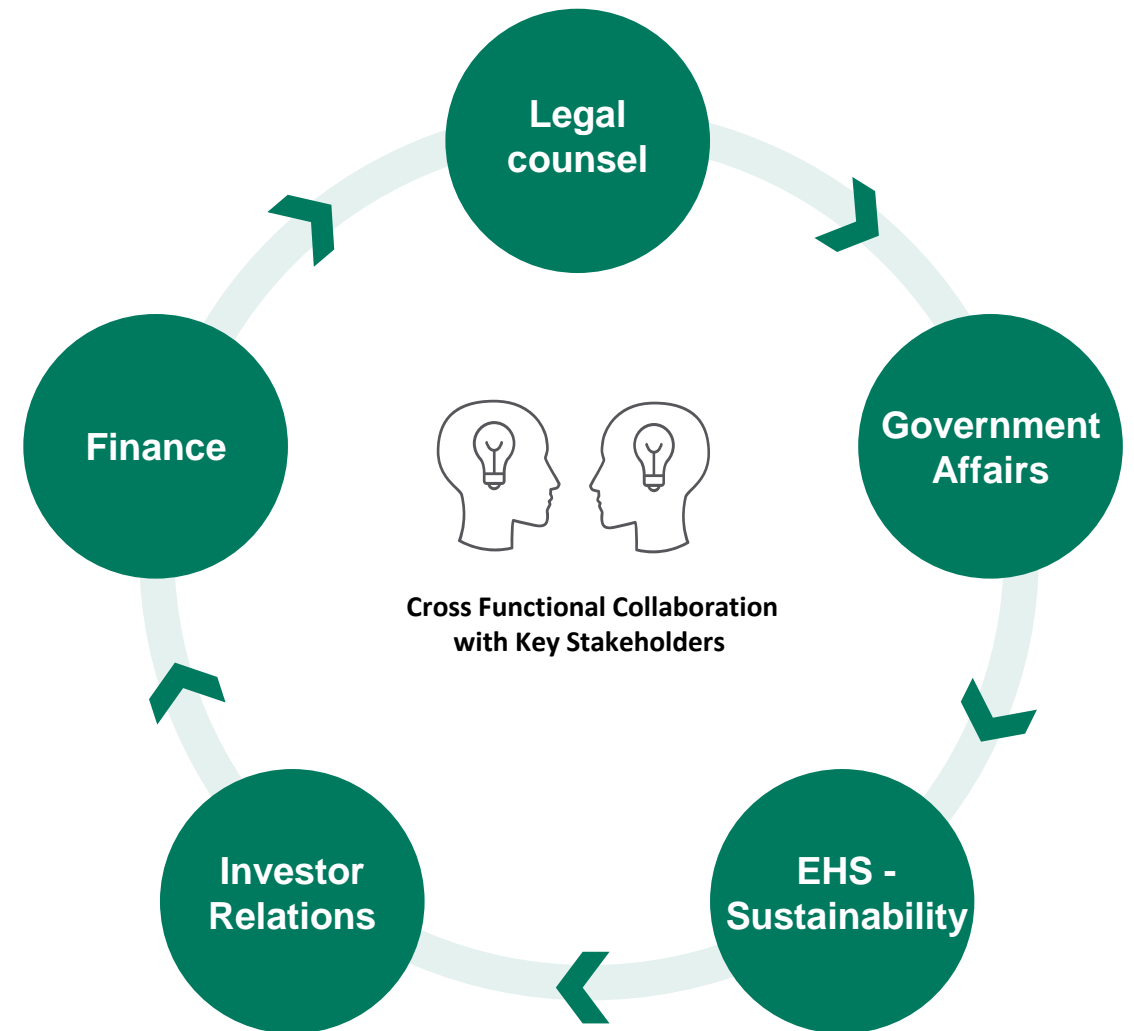
“Recommendations to investors for helping other financial market participants to disclose against the Taxonomy:

- 1. ESTABLISH A FRAMEWORK**
- 2. DEVELOP A PROCESS**
- 3. IDENTIFY CHALLENGES**
- 4. FIND SOLUTIONS**

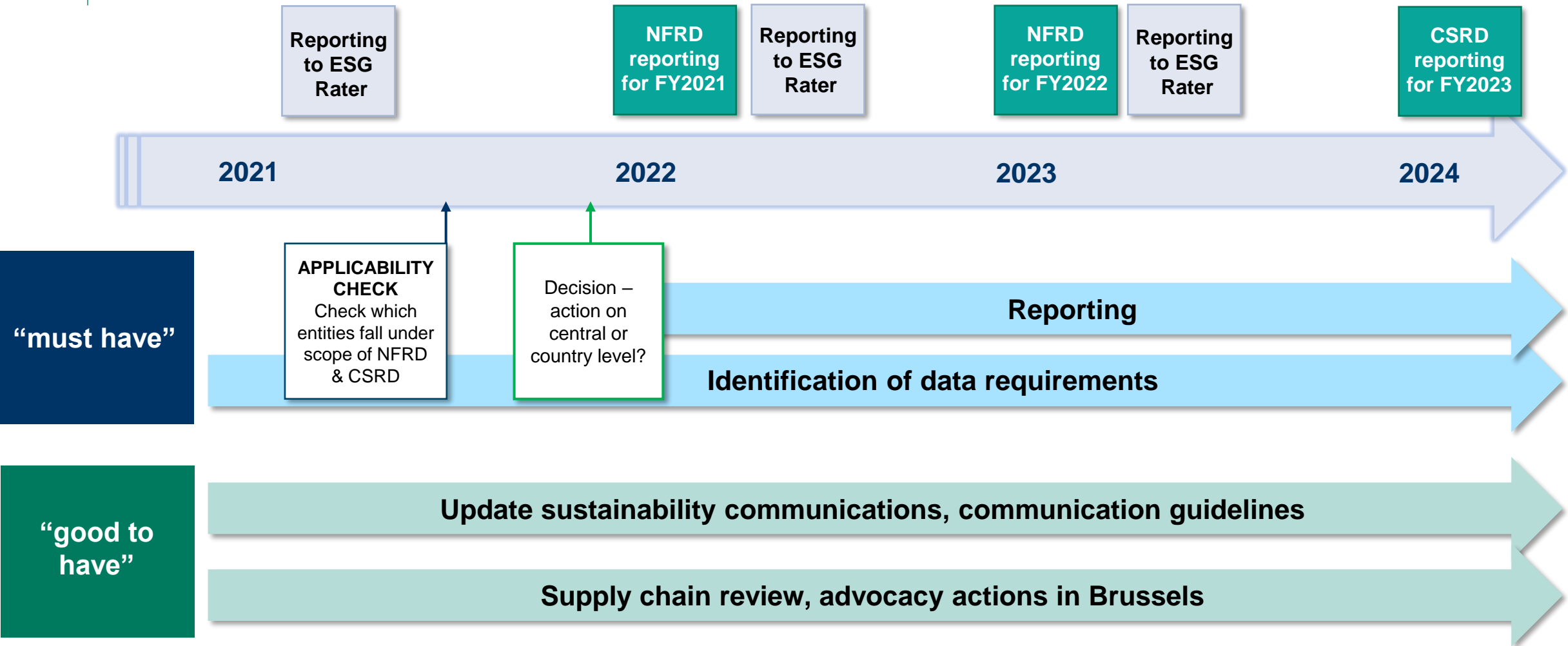
There is no single correct way to approach the Taxonomy”, but following these steps may help investors initiating their Taxonomy assessment also looking for collaboration with the corporate industry.

Multinational Listed Enterprise

- *Do you have legal entities in EU member states that are listed or have more than 250 employees?*
- *Do your activities fall under scope of the EU Taxonomy?*
- *Is your value chain resilient to the implications of the EU Green Deal?*
- *Do you need to get more active in Brussels to influence the developments?*
- *How should you classify your Capex Projects?*
- *Are your communications around the sustainability of our activities aligned with the Taxonomy?*
- *Are you gathering and reporting the right KPIs?*
- *What do your investors require from you?*
- *How to benefit from Green / Sustainability linked loans and bonds?*



Implementation Time plan and actions





Thank you

Onur Durmus
EMEA Lead EU Green Deal
and EU Taxonomy Services
onur.durmus@erm.com
Frankfurt, Germany