2019
ACA INSURANCE DAY

ACA
LUXEMBOURG INSURANCE
AND REINSURANCE ASSOCIATION

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GLOSSARY KEY TERMS RELATING TO ESG

"There is no other industry in the world who has the capacity to keep us safe"
Christiana Figueres, former executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC) 2010-2016, at the PSI-Allianz Event, 27 February 2019.

INTRO DUC TION

For this 7th ACA Insurance Day, ACA is happy to host a panel on sustainability risks and opportunities ("How to integrate ESG factors to better manage risks and generate long-term returns").

We are very aware that not all of our audience might be familiar with the various concepts, acronyms and stakeholders that might be referred to. In collaboration with Arendt & Medernach, ACA therefore worked out this short glossary to guide you through the discussions, if necessary.

ACA decided to organise a panel session on sustainability because of the 3 main reasons below:

INCREASING RISKS ASSOCIATED WITH CLIMATE CHANGE

Insurance companies are more and more exposed to climate related risks:

- Physical risks (ex: damages to property or infrastructure due to extreme climate shocks (storms, floods, droughts))
- Transition risks (ex: society adjusting towards a low carbon economy by changing consumption patterns, energy sources, changing regulations, etc.)

POLITICAL PRESSURE

- International: In the last five years landmark international agreements were established with the adoption of the UN 2030 Agenda and the 17 Sustainable Development Goals, as well as the Paris Climate Agreement. As a reminder, the signatories of the Paris agreement agreed to " [hold] the increase in the global average temperature to well below 2°C above pre-industrial levels and [to pursue] efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change; (…)"
- Gender and generational: the rising clout of millennials and female investors will boost emphasis on companies' sustainability performance, given the stated concerns of both demographics.

OPPORTUNITIES

- Positive impact on performance: Growing consensus, supported by academic research, that financial markets reward good ESG performance (See Swiss Re's "Responsible investment, the next steps in our journey").
- Commercial opportunity: ESG investment strategies have become a must for institutional investors and asset managers.


1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS
SUSTAINABLE DEVELOPMENT GOALS

KEY CONCEPTS

Sustainable development

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Our Common Future, 1987). Our Common Future, also known as the Brundtland Report, was published in 1987 by the United Nations.

Environmental, Social and Governance (ESG)

ESG refers to non-financial indicators/norms used by investors to evaluate corporate behaviour and the performance of investment and fund portfolios on environmental, social and governance criteria.

Environmental considerations refer to climate change mitigation and adaptation, as well as the environment more broadly and the related risks (e.g. natural disasters, reduction of greenhouse gas emissions, waste management, etc.)

Social considerations may refer to issues of inequality, inclusiveness, labour relations, investment in human capital, accident prevention, diversity, respect for the rights of employees, etc.

Governance of public and private institutions, including management structures, employee relations and executive remuneration (fundamental in ensuring the inclusion of social and environmental considerations in the decision-making process).

Sustainable Development Goals (SDGs)

Based on the 2030 Agenda for sustainable development (UN initiative), the 17 Sustainable Development Goals and 169 targets (a number of specific targets are to be achieved for each SDG) are integrated and indivisible. They aim to balance all aspects of sustainable development.

Climate Change

The Intergovernmental Panel for Climate Change ("IPCC") defines climate change as a change in the state of the climate that can be identified (e.g. using statistical tests) by changes in the mean and/or the variability of its properties, and that persists for an extended period, typically decades or longer. It refers to any change in climate over time, whether due to natural variability or as a result of human activity.

Climate Change Adaptation

"Economic activity reducing the negative effects of the current and future climate or preventing an increase or shifting of negative effects of climate change […]." (See European Commission's proposal for a regulation on the establishment of a framework to facilitate sustainable investment – "Taxonomy proposal", May 2018).

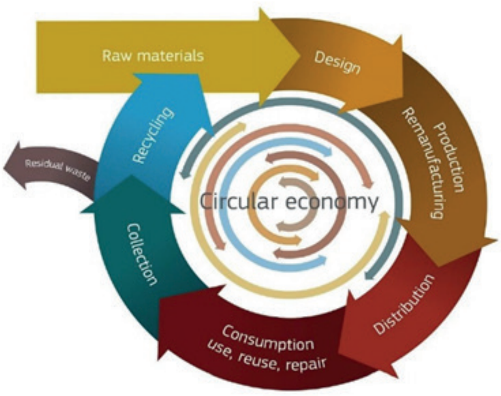
Climate Change Mitigation

"Economic activity shall be considered to contribute substantially to climate change mitigation where that activity substantially contributes to the stabilization of greenhouse gas concentrations in the atmosphere at a level which prevents dangerous anthropogenic interference with the climate system by avoiding or reducing greenhouse gas emissions or enhancing greenhouse gas removals […]." (Taxonomy proposal, May 2018).

Example: The UN-REDD Programme is the United Nations Collaborative Programme on Reducing Emissions from Deforestation and forest Degradation (REDD+) in developing countries.

Circular economy

A circular economy aims to maintain the value of products, materials and resources for as long as possible by returning them into the product cycle at the end of their use, while minimising the generation of waste. The fewer products we discard, the less materials we extract, the better for our environment.



Source: European Commission

Green House Gases

Gases that are causing the "greenhouse effect" on our atmosphere, i.e. essentially thickening the blanket of the earth's atmosphere, increasing the heating of the planet (The gases concerned include carbon dioxide (CO2), Methane (CH4), Nitrous Oxide (N2O), Fluorinated Gases).

Corporate Social Responsibility (CSR)

CSR is an evolving business practice that incorporates sustainable development into a company's business model. It has a positive impact on social, economic and environmental factors. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society including economic, social, and environmental. To engage in CSR means that, in the normal course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them. (See for instance the INDR, Luxembourg local CSR dedicated institution)

Greenwashing

The use of marketing to portray an organization's products, activities or policies as environmentally friendly when they are not (i.e. misleading of consumers about the environmental benefits of a product or policy through specious advertising, public relations and unsubstantiated claim).

Sustainable insurance

Sustainable insurance is a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues. Sustainable insurance aims to reduce risk, develop innovative solutions, improve business performance, and contribute to environmental, social and economic sustainability.

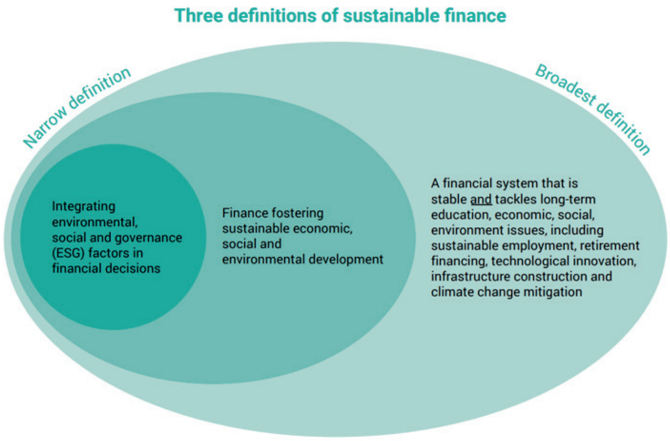
SUSTAINABLE FINANCE

What is meant by «sustainable finance»?

Sustainable Finance

The European Commission defines «Sustainable Finance» as the process of considering the environmental and social impact in investment decision-making, leading to a growth of long-term investments and sustainable activities. All three ESG components – environmental, social and governance – are integral parts of sustainable economic development and finance.

Another approach to defining sustainable finance can be as shown below:



Source: The 2017 interim report of the High Level Expert Group on sustainable finance

Climate finance (adaptation/mitigation)

Local, national or transnational financing (drawn from public, private and alternative sources of financing) that seeks to support mitigation and adaptation actions or activities that will address climate change.

Development finance

Development finance refers to financial support (usually grants or concessional loans) from developed countries to developing countries, through local development banks or bilateral/multilateral development banks (EIB). The funds are provided to advance development in areas such as health, sanitation, education, infrastructure, and strengthening tax system and administrative capacity. (See OECD's website)

Socially Responsible Investment (SRI)

These investments are usually aiming to avoid certain types of socially harmful businesses such as alcohol, or tobacco production or gambling and/or targeting companies engaged in social justice, environmental sustainability, alternative energy/clean technology efforts.

Impact investing

Investments made into companies, organizations or funds with the intention to generate a measurable social and/or environmental positive impact.

Climate Risks

Physical risks: Damages to companies and assets because of the physical impact of volatile and extreme weather events, for example, heat waves, droughts, rising sea levels, storms or flooding (including secondary financial impacts of extreme weather, such as lower crop yields, borrowers defaulting on their loans, disruption to supply chains, political instability, insurance claims or losses, legal damages, or conflict).

Transition risks

Transition risks can occur when moving towards a less polluting, greener economy. Such transitions could mean that some sectors of the economy face big shifts in asset values or higher costs of doing business. This includes regulatory risk (the financial impact if regulators react with carbon prices or caps on emissions, the withdrawal of subsidies or the support of renewables) and technological risk.

The impact of changing valuations to businesses or assets as economies shift to renewable energy sources. This also includes stranded asset risk, whereby assets or businesses are written down to zero because of the transition.

Sustainability risks

Potential material financial impact on the investment, or the company itself, arising from environmental, social and governance considerations (for an insurance specific definition, see EIOPA's "Technical advice on the integration of sustainability risks and factors under the delegated acts of Solvency II").

Adverse impact

Impacts of investment decisions and advice that result in negative effects on ESG/sustainability components.

Sustainable finance tools

Climate bonds

Climate bonds are debt instruments used to finance or re-finance projects needed to address climate-related issues (e.g. wind farms, solar and hydropower plants, to rail transport and building sea walls in cities threatened by rising sea levels). Only a small portion of these bonds have actually been labelled as green or climate bonds by their issuers. (See the Climate Bond Initiative's website for detailed information)

Green bonds

Green bonds are debt instruments issued to fund projects that have a positive environmental or climate impact (e.g. renewable energies, energy efficiency, pollution prevention and control, sustainable management of land use, biodiversity conservation, clean transportation, water management, climate change adaptation, etc.). Proceeds from these bonds are typically earmarked for green projects and are backed by the issuer's entire balance sheet (See ICMA or Luxembourg Green Exchange).

Social bonds

Social bonds are debt instruments whose proceeds are used exclusively to finance or refinance social projects targeting various vulnerable population (e.g. affordable basic infrastructure, access to essential service, affordable housing, employment generation, food security, socioeconomic advancement and empowerment). (See ICMA or Luxembourg Green Exchange)

The Double counting issue

Counting the same emissions reduction twice (e.g. both the host country and the buyer want to count the emissions reductions in their inventories).

> *"It is time to go beyond disclosure and go to concrete action (…). And let's enjoy while doing it. It's our planet, it's fun, it should not be an obligation."*
> Oliver Bates, CEO of Allianz SE, at the PSI-Allianz Event, 27 February 2019.

More generally the terms "double counting" in sustainable finance reflects a concern that the impact of the same underlying project(s) may be reported twice.

ESG/Sustainable investment methods

- Negative screening

Excluding investment opportunities based on whether they comply with ESG criteria determined by the investor.

- Best in class/positive screening

Develop ESG rating of companies and only invest in best in class/highest scoring on ESG metrics relative to benchmarks. Investment in sectors, companies or projects selected for positive ESG performances relative to industry peers.

- Norm based screening

Screening based on the compatibility of potential investments and global norms, such as climate protection, human rights, working conditions and action plans against corruption.

- ESG integration

Systematic and explicit integration of qualitative and quantitative ESG information in the traditional financial analysis and investment decision-making process (valuation, portfolio construction, risk management).

- Engagement/Active shareholding

Engage with Portfolio Company on ESG topics. Monitor and manage ESG challenges and use investor/debtor influence as lenders to influence the portfolio company's behaviour, transparency and consideration of these issues.

Stranded assets

Assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities. Coal and other hydrocarbon resources may have the potential to become stranded as the world engages in a fossil fuel phase out (changing regulations, consumption patterns, etc.).

Dow Jones Sustainability Indices (DJSI)

A family of indices evaluating the sustainability performance of thousands of companies trading publicly, operated under a strategic partnership between S&P Dow Jones Indices and RobecoSAM (Sustainable Asset Management). They are the longest-running global sustainability benchmarks worldwide and have become the key reference point in sustainability investing for investors and companies alike.

The DJSI is based on an analysis of corporate economic, environmental and social performance, assessing issues such as corporate governance, risk management, branding, climate change mitigation, supply chain standards and labor practices.

FTSE4Good Index Series

Index series designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. Transparent management and clearly-defined ESG criteria make FTSE4Good indexes suitable tools to be used by a wide variety of market participants when creating or assessing sustainable investment products.


ASK NOT WHAT
YOUR PLANET CAN
DO FOR YOU
ASK WHAT YOU CAN
DO FOR YOUR PLANET

KEY STAKEHOLDERS

At international level

United Nations Environmental Programme Finance Initiative (UNEP FI)

Partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 290 members banks, insurers, and investors, to help create a financial sector that serves people and planet while delivering positive impacts. Aiming to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

Principles for Responsible Investment (PRI)

Works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations. The PRI represent USD86.3 trillions of assets under management and over 2300 signatories.

Principles for Sustainable Insurance (PSI)

Endorsed by the UN Secretary-General and insurance industry CEOs, the Principles for Sustainable Insurance (PSI) serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities—and a global initiative to strengthen the insurance industry's contribution as risk managers, insurers and investors to building resilient, inclusive and sustainable communities and economies. Developed by the UN Environment Programme's Finance Initiative, the PSI was launched at the 2012 UN Conference on Sustainable Development, and is the largest collaborative initiative between the United Nations and the global insurance industry.

ACA has been an official supporting institution of the PSI since June 2019.

Principles for Responsible Banking (PRB)

On 22 and 23 September 2019 in New York City, during the annual United Nations General Assembly, the PRB were launched by 130 banks from 49 countries, representing more than USD47 trillion in assets. They aim to provide a framework for a sustainable banking system and to accelerate the banking industry's contribution to achieving society's goals as expressed in the Sustainable Development Goals and the Paris Climate Agreement. The Luxembourg Bankers Association (ABBL) has been a PRB signatories since July 2019.

Financial Stability Board (FSB)

International body that monitors and makes recommendations about the global financial system. It was established after the G20 London summit in April 2009 as a successor to the Financial Stability Forum.

Task Force on Climate-related Financial Disclosures (TCFD)

Launched in 2015 by the FSB, the TCFD aims to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. In 2017, the TCFD released its final report.

- TCFD Final report on Climate-related Financial Disclosure.
- TCFD 2019 status report.
- Example of TCFD report, Aviva's report.

United Nations Framework Convention on Climate Change (UNFCCC) & the Conferences Of Parties (COPs)

The United Nations Framework Convention on Climate Change ("UNFCCC") holds the corresponding Conferences of Parties annually. The conferences started in 1995 in Berlin, laying the groundwork for future conferences and protocols that would notably lead to establishing the Kyoto Protocol and the Paris Agreements.

Intergovernmental Panel on Climate Change (IPCC or GIEC in French)

United Nations' body for assessing the science related to climate change. The IPCC provides regular assessments of the scientific basis of climate change, its impacts and future risks, and options for adaptation and mitigation.

Global Impact Investing Network (GIIN)

Focuses on reducing barriers to impact investment so more investors can allocate capital to fund solutions to the world's most intractable challenges. This is done by building critical infrastructure and developing activities, education, and research that help accelerate the development of a coherent impact investing industry.

Climate Bonds Initiative (CBI)

Investor-focused no-for-profit international organisation working solely to mobilize the $100 trillion bond market for climate change solutions by promoting investment in projects and assets necessary for a rapid transition to a low carbon and climate resilient economy.

The strategy is to develop a large and liquid Green and Climate Bonds Market that will help drive down the cost of capital for climate projects in developed and emerging markets; to grow aggregation mechanisms for fragmented sectors; and to support governments seeking to tap debt capital markets.

Multilateral development banks (MDB)

Multilateral development banks, or MDBs, are supranational institutions set up by sovereign states, which are their shareholders. Their remits reflect the development aid and cooperation policies established by these states. They have the common task of fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital for the benefit of all global citizens. MDBs also play a major role on the international capital markets, where they raise the large volume of funds required to finance their loans. (Source: EIB)

Examples of MDBs:

- The European Investment Bank (EIB)
- The World Bank Group

Development Finance Institutions (DFI)

National and international development finance institutions (DFIs) are specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms. (Source: OECD / EDFI)

The German Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau - KfW)

The KfW is a German public financial institution with a wide scope of action including:

- Domestic promotion: promoting the investments of private individuals, municipal enterprises and public institutions;
- Export and project finance: financing projects of German and European companies so they can compete on global markets;
- Development finance: supporting economic and social progress in developing and transition countries to help ensure the people there are better off;

The French Development Agency (Agence Française de Développement - AFD)

AFD finances, supports and aims to accelerate the transition to a fairer and more sustainable world.
Peace, climate change, health, education: its teams are involved in more than 4,000 projects in 115 countries and French overseas departments. It contributes to France's commitment to the Sustainable Development Goals (SDG) across the developing world.

At European level

High Level Expert Group (HLEG) on sustainable finance

Following the signature of the Paris agreement, the European Commission appointed the High-Level Expert Group (HLEG) on Sustainable Finance. The group was given a mandate to prepare a comprehensive blueprint for reforms along the entire investment chain, on which to build a sustainable finance strategy for the EU. Its final report was released in January 2018 and was quickly followed in March 2018 by the "European Commission's action plan for financing a sustainable growth" based on the HLEG recommendations.

"Reaching Paris agreement goals requires no less than a transformation of the entire financial system, its culture, and its incentives. Europe should lead this change."

(Forewords of the HLEG's final report by Commissioner Dombrovskis and Katainen)

Technical Expert Group (TEG)

The European Commission set up a Technical Expert Group on sustainable finance to assist it in developing, in line with the Commission's legislative proposals of May 2018:

- an EU classification system – the so-called EU taxonomy – to determine whether an economic activity is environmentally sustainable;
- an EU Green Bond Standard;
- methodologies for EU climate benchmarks and disclosures for benchmarks;
- guidance to improve corporate disclosure of climate-related information.

The TEG commenced its work in July 2018. Its 35 members from civil society, academia, business and the finance sector, as well as additional members and observers from EU, and international public bodies, work both through formal plenaries and sub-group meetings for each work stream. The work of the TEG has been officially extended until year-end 2019.

European Environmental Agency (EEA)

Agency of the European Union, whose task it is to provide sound and independent information on the environment. The EEA aims to support sustainable development by helping to achieve significant and measurable improvement in Europe's environment, through the provision of timely, targeted, relevant and reliable information to policymaking agents and the public.

At local level

LuxFLAG

The Luxembourg Finance Labelling Agency is an independent, non for profit association created in Luxembourg in July 2006 by seven founding partners.

The agency aims to promote the raising of capital for the responsible investment sector by awarding a recognisable label to eligible investment vehicles. Its objective is to reassure investors that the applicant invests, directly or indirectly, in the responsible investment sector.

Luxembourg Green Exchange (LGX)

Aims to provide issuers, asset managers and investors with an environment for bonds and funds which are green, social, sustainable, or ESG-focused. Entry is restricted to issuers and asset managers that provide full disclosure and fulfil their reporting obligations; in doing so, we ensure maximum transparency.

The non-exhaustive list below mentions project categories that will generally not be admitted to LGX (Armaments, tobacco, gambling, nuclear power production, fossil fuels, violations to the UN Global Compact, pornography, alcohol, trade in CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora), animal testing for cosmetic and other non-medical products).

Luxembourg - EIB Climate Finance Platform

The Luxembourg-EIB Climate Finance Platform aims to fund high-impact climate action projects with strong environmental and development benefits, thereby acting as a catalyst for additional financing. The platform contributes to Luxembourg's international commitment to implement the Paris Agreement and is in line with the EIB's Climate Strategy.

International Climate Finance Accelerator (ICFA)

Aims to enhance the climate finance ecosystem by creating an attractive and supporting environment for climate finance fund managers in Luxembourg by enhancing the eco-system of climate finance solutions developed as a public-private partnership within the Luxembourg Climate Finance Task Force.

LuxDev

LuxDev is an operational pillar of Luxembourg's bilateral cooperation system.

Its mission is to actively participate in the implementation of the development cooperation policy of the Luxembourg government, which mainly focuses on poverty eradication and sustainable development in its social, economic and environmental aspects. In order to achieve these objectives in the context of global development, Luxembourg allocates 1% of its Gross National Income (GNI) to Official Development Assistance (ODA) every year.

PRESENT AND FUTURE LEGISLATIVE FRAMEWORK

Soft law and emblematic private sector initiatives

STANDARD SETTERS

International Finance Corporation (IFC)

IFC, a sister organization of the World Bank and member of the World Bank Group, is the largest global development institution focused on the private sector in developing countries. IFC leverages its products and services, as well as products and services of other institutions across the World Bank Group, to create markets that address the biggest development challenges of our time. IFC is also a leading mobilizer of third-party resources for projects. Its willingness to engage in difficult environments and its leadership in crowding-in private finance enable it to extend its footprint and have a development impact well beyond its direct resources.

Carbon Disclosure Project (CDP)

CDP is a global non-profit organisation founded in 2000 and headquartered in London. CDP requests standardized climate change, water and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors who are endorsed as 'CDP signatories'. These shareholder requests for information encourage companies to account for - and be transparent about - environmental risks.

Global Reporting Initiative (GRI)

GRI is an international, non-profit organisation working in the public interest towards a vision of a sustainable global economy where organisations manage their economic, environmental, social and governance performance and responsibility is impacted. Thousands of corporate and public sector reporters in over 90 countries use the GRI Guidelines. More than 24,000 reports have been registered in GRI's Sustainability Disclosure Database with 27 countries and regions referencing GRI in their policies. GRI's activities are two-fold: firstly, in the provision of sustainability reporting guidelines and secondly, in the development of engagement activities, products and partnerships to enhance the value of sustainability reporting for organisations.

Sustainability Accounting Standards Board (SASB)

SASB is a non-profit organisation, based in the United States that issues sustainability accounting standards that can be used by reporting issuers to disclose material sustainability information in filings with the Securities and Exchange Commission. SASB standards identify sustainability topics and related accounting metrics, at an industry level, that are likely to constitute material information to companies in that industry. Since the beginning of 2016, SASB is developing provisional standards for more than 80 industries in 10 sectors. SASB's standards development process includes evidence-based research, multi-stakeholder working groups, a 90-day public comment period and a review by an independent standards council.

FRAMEWORKS

United Nations Global Compact

The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is the largest corporate sustainability initiative in the world with over 8,000 companies and 4,000 non-business signatories based in 160 countries and over 85 Local Networks. The UN Global Compact is a voluntary initiative that encourages companies to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. It also encourages companies to take action in support of UN goals and issues. Business participants are expected to publicly report on their progress in an annual Communication on Progress. For guidance on global best practices on reporting on comprehensive ESG information, see GC Advanced criteria and GC Basic Reporting Guidance.

International Integrated Reporting Council (IIRC)

The IIRC is a group of international leaders from the corporate, investment, accounting, securities, regulatory, academic, standard-setting and civil areas of society who have been tasked with creating the Integrated Reporting Framework. This framework will provide material information about an organisation's strategy, governance, performance and prospects in a concise and comparable format which marks a fundamental shift in corporate reporting.

Future European regulations

ON SUSTAINABLE FINANCE IN GENERAL

EU Action Plan on Financing a sustainable growth

The action plan on financing sustainable growth adopted by the European Commission in March 2018 set 3 main goals:

- reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth
- manage financial risks stemming from climate change, environmental degradation and social issues
- foster transparency and long-termism in financial and economic activity.

The action plan key actions include:

- establishing a clear and detailed EU classification system – or taxonomy – for sustainable activities. This will create a common language for all actors in the financial system
- establishing EU labels for green financial products. This will help investors to easily identify products that comply with green or low-carbon criteria
- introducing measures to clarify asset managers' and institutional investors' duties regarding sustainability
- strengthening the transparency of companies on their environmental, social and governance (ESG) policies. The Commission will evaluate the current reporting requirements for issuers to make sure they provide the right information to investors
- introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies. This means incorporating climate risks into banks' risk management policies and supporting financial institutions that contribute to fund sustainable projects

The European Commission's 3 regulation proposals on sustainable finance

- On taxonomy: this proposal aims to set out the conditions and the framework to gradually create a unified classification system ('taxonomy') on what can be considered as an ESG activity. This regulation is first focusing on environmentally sustainable economic activities and will tackle other types of activities in a second step.
- On disclosure: this proposal aims to introduce disclosure obligations on how institutional investors and asset managers integrate environmental, social and governance (ESG) factors into their risk management processes. Delegated acts will further specify requirements on integrating ESG factors into investment decisions, which is part of institutional investors' and asset managers' duties towards investors and beneficiaries.
- On benchmark: this proposal aims to create a new category of benchmarks comprising low-carbon and positive carbon impact benchmarks, which will provide investors with better information on the carbon footprint of their investments.

ON INSURANCE SPECIFIC TOPICS

For a full overview of insurance specific upcoming European regulation please consult EIOPA's sustainable finance page.

Amendments to IDD

The European Commission has released proposals for amendments to delegated acts under the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD) to include ESG considerations into the advice that investment firms and insurance distributors offer to individual clients.

Local regulations and initiatives

LUXEMBOURG

Luxembourg sustainable finance roadmap

"The roadmap, drafted in partnership with UNEP, and based on a consultation of the financial industry and civil society, establishes an ambitious vision and makes recommendations to lay the groundwork to establish a comprehensive and far-reaching sustainable finance strategy, notably leveraging Luxembourg's inherent strengths as an international financial centre, to contribute to the Agenda 2030 and the objectives of the Paris Agreement."

Luxembourg Sustainable Finance Forum

The Luxembourg Sustainable Finance Forum is an event organised by Luxembourg for Finance in 2018 and 2019. It aims to bring together the European sustainable finance community: policy makers, practitioners, public stakeholders and corporate and retail investors.

FRANCE

2015 Energy Transition Law (article 173)

Article 173 of the French Energy Transition Law came into force on 1 January 2016. It strengthened mandatory carbon disclosure requirements for listed companies and introduced carbon reporting for institutional investors, defined as asset owners and investment managers. Following policy maker consultation with investors, the law was introduced on a comply or explain basis. Implementation is flexible to allow investors to determine the most appropriate reporting methodologies themselves

2019 Action Plan for Business Growth and Transformation ("PACTE law")

The PACTE law introduce several new requirements. For instance, the French financial services regulator, the AMF (Autorité des Marchés Financiers) will have to ensure the quality of information provided by asset managers on their low-carbon strategy and their management of climate change-related risks.

Regarding life insurance products, the PACTE law aims to make them transferable, more transparent and greener.

- See Articles in Les Echos
- See French Insurance Federation's guide on responsible savings published before the adoption of the PACTE law

Finance for Tomorrow by Paris Europlace

Finance for Tomorrow is a branch of Paris Europlace, the representative body of the Paris financial center. It aims to "make Paris the international leader on green finance and promote sustainable finance as the new reference".

- Engage for the future

Finance for Tomorrow brings together all private, public and institutional players in the Paris financial centre who wish to commit themselves to a finance that focuses on a sustainable future and combines long-term investment with consideration of environmental and social challenges.

- Concrete actions:

Differentiate the Paris Financial Center (make the Paris Financial Center an expert in sustainable finance at the international level). Consolidate synergies between actors, especially between the public and private sectors. Promote the Paris Financial Center on a European and international scale (by creating a brand, with Finance for Tomorrow).

- #shiftthetrillions:

Massively redirecting capital flows towards the energy transition is now a priority challenge, and Finance for Tomorrow has set itself the «Shift the trillions» guiding principle to scale up the change in scale of green and sustainable finance already underway.

UNITED KINGDOM (UK)

Green Finance Strategy

The UK launched the Green Finance Strategy on 2 July 2019. The Strategy supports the UK's economic policy for strong, sustainable and balanced growth, the delivery of a modern Industrial Strategy and a domestic and international commitments on climate change, the environment and sustainable development.

The Strategy is an ambitious package, bringing together work from across the government, regulators and the private sector. It has 3 core elements:

- greening finance: ensuring current and future financial risks and opportunities from climate and environmental factors are integrated into mainstream financial decision making, and that markets for green financial products are robust in nature
- financing green: accelerating finance to support the delivery of the UK's carbon targets and clean growth, resilience and environmental ambitions, as well as international objectives
- capturing the opportunity: ensuring UK financial services capture the domestic and international commercial opportunities arising from the 'greening of finance', such as climate related data and analytics, and from 'financing green', such as new green financial products and services.

Green Finance Institute

The Green Finance Institute was launched in 2019 by the UK Government and the City of London Corporation to foster greater cooperation between the public and private sectors, create new opportunities for investors, and strengthen the UK's reputation as a global hub for green finance.

Green Finance Taskforce

In September 2017, the UK Government asked leading finance expert and former Lord Mayor of the City of London, Sir Roger Gifford, to chair an independent taskforce to accelerate growth of green finance and the UK's low carbon economy.

The Green Finance Taskforce report sets out a series of recommendations on how the government and the private sector can work together to make green finance an integral part of our financial services sector. The UK Government has subsequently published the Green Finance Strategy which takes forward the key themes of the taskforce.

"I am like all of you here today: I don't want a 4-degree world. Rather than support the past, let's support a low carbon future."
Thomas Buberl, AXA Group CEO, UNEP FI Global Roundtable, 26 November 2018.

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@ACAluxembourg

ACA Luxembourg

ACA - Luxembourg Insurance and Reinsurance Association
12, rue Erasme, L – 1468 Luxembourg
Tél. : (+352) 44 21 44-1