International Trends Towards Responsible Investment and their Impact on Corporate Australia Non-Financial Disclosure in the US and EU

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The EU Green Deal

• The EU Green Deal
• The Taxonomy Regulation
• The Sustainable Finance Disclosure Regulation
• MiFID2 - ESG Suitability Delegated Act
• Non-Financial Reporting Directive
• BSI/ISO
• EU Ecolabel
• Benchmarks
• EU carbon reduction benchmarks
• World benchmark alliance
The EU Green Deal

- “Becoming the world’s first climate-neutral continent by 2050”
- No net emissions of GHG in 2050
- Economic growth to be decoupled from resource consumption
- A ‘just transition’
- Green oath to “do no harm”
- Part of the EC’s plan to implement the UN’s 2030 SDGs
Pressures for the Green Plan

- EU is signatory to the Paris Accord
- Implementation of the UN’s SDGs
- Climate change counterweight to the US
- New agenda and focus for the EU post 2019 elections
- Change in the EU’s finances and political complexion post Brexit
- Embedded in the Treaty For the EU (TFEU)
TFEU – Overarching Principles

**Article 3**

- EU’s aim is to promote the well-being of its peoples (amongst other things)
- EU will work for the sustainable development of Europe
- Based on balanced economic growth
- Promote solidarity between generations
- In its relations with the rest of the world, it shall contribute to the sustainable development of the Earth...the protection of human rights...the strict observance and development of international law

**Integration Provision**

- Require the objectives of the integration provisions are taken into account in all the EU’s policies and activities
TFEU – Integration Provisions

- Article 7 – consistency
- Article 8 – gender equality
- Article 9 – employment, social inclusion, education and health
- Article 10 – non-discrimination
- Article 11 – environmental protection
- Article 12 – animal welfare and recognition of animals as sentient beings
TFEU – Article 11

• Environmental protection requirements must be integrated into the definition and implementation of the EU’s policies and activities, in particular with a view to promoting sustainable development
The Green Deal – Agenda

• March 2020 – legislation to embed 2050 neutrality objective into EU law
• Q2 2020 – plan to increase GHG reduction target to at least 50% (against 1990 levels)
• Mid 2021 – climate related policy instruments to be reviewed and revisions proposed
• Changes to the EU ETS
  • Extension to new sectors
  • Regulation of land and land use
  • Carbon border adjustment mechanism
  • Availability of data to allow climate change to form part of risk management
The Green Deal – Industrial Strategy

- EU Industrial Strategy to include green and digital transformation
- Digital transformation to help deliver the Green Deal
- Strategic security of access to resources for the Green Deal
- A Farm to Fork system that is fair, healthy and environmentally friendly
- Decarbonisation of chemical, steel and cement sectors
- Circular economy action plan for textiles, construction, plastics and electronics
- Right to repair to be considered
The Green Deal – Energy

- EU power sector to be based on renewables
- Phasing out of coal
- Decarbonising gas
- Smart energy infrastructure
- Energy poverty to be tackled
The Green Deal – Investment & Finance

- Current 2030 GHG targets need €260 billion of additional investment each year
- Green Deal Investment Plan
  - *Mobilise* more than €1 trillion of sustainable investments by 2030
- Just Transition Mechanism
  - No one left behind/ Green Oath
  - €100 billion during 2012-2027 to regions affected by Green Plan to alleviate socio-economic impact of Green Deal
EU Disclosure – EU Taxonomy

- The Technical Expert Group of Sustainable Finance (TEG)
- Published the Technical Report on Taxonomy in 2019
- To become the Taxonomy Regulation
- Climate change and adaptation from 2021
- Environmental Objectives from 2022
- Review in 2021 to include Social Taxonomy
Non Financial Reporting Directive

- Public interest companies with over 500 employees
- Listed companies, banks, and insurance companies
- Required to report non-financial information including their policies relating to -
  - Environmental protection
  - Social responsibility
  - Treatment of employees
  - Respect for human rights
  - Anti-corruption and bribery
  - Diversity on company boards
Sustainable Finance Disclosure Regulation

• EU Disclosure Regulation EU/2019/2088 (SFDR)
• EU asset managers and investment funds must disclose sustainable investments and sustainability risks in portfolios
• Additional requirements apply to some ESG-focused funds -
  • ESG-labelled investment funds
  • Sustainable investment funds
  • Carbon reduction investment funds
Other Requirements

• MiFID2 & Insurance Distribution Directive (IDD)
• Amended by an ESG Suitability Delegated Act
• Q2 2020
Disclosure in the US
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