

The ABC of ESG

Introduction to the Key Concepts and Impacts of the ESG Framework

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15 October 2020

EU Sustainable Finance Action Plan



- ▣ The EU has set in motion an ambitious legislative framework to make environmental, social and governance concerns a central plank of regulation in the financial services industry

Why?

- ▣ Financial service firms can play a key role in the transition to a more sustainable economy by redirecting capital flows towards sustainable investments.
- ▣ The EU Action Plan identifies 10 key points, but for funds and their management companies, the key proposals relate to:
 - Strengthening the disclosures made to investors.
 - Incorporating sustainability as part of the investment decision making process.
 - Establishing a taxonomy for sustainable activities.
 - Developing sustainability benchmarks and better integrating sustainability into ratings.

EU Sustainable Finance Framework: Key Legislation

SFDR (Regulation (EU) 2019/2088)

To provide for consistent disclosure requirements in relation to sustainability

Taxonomy Regulation

Creating a unified classification system for sustainable activities

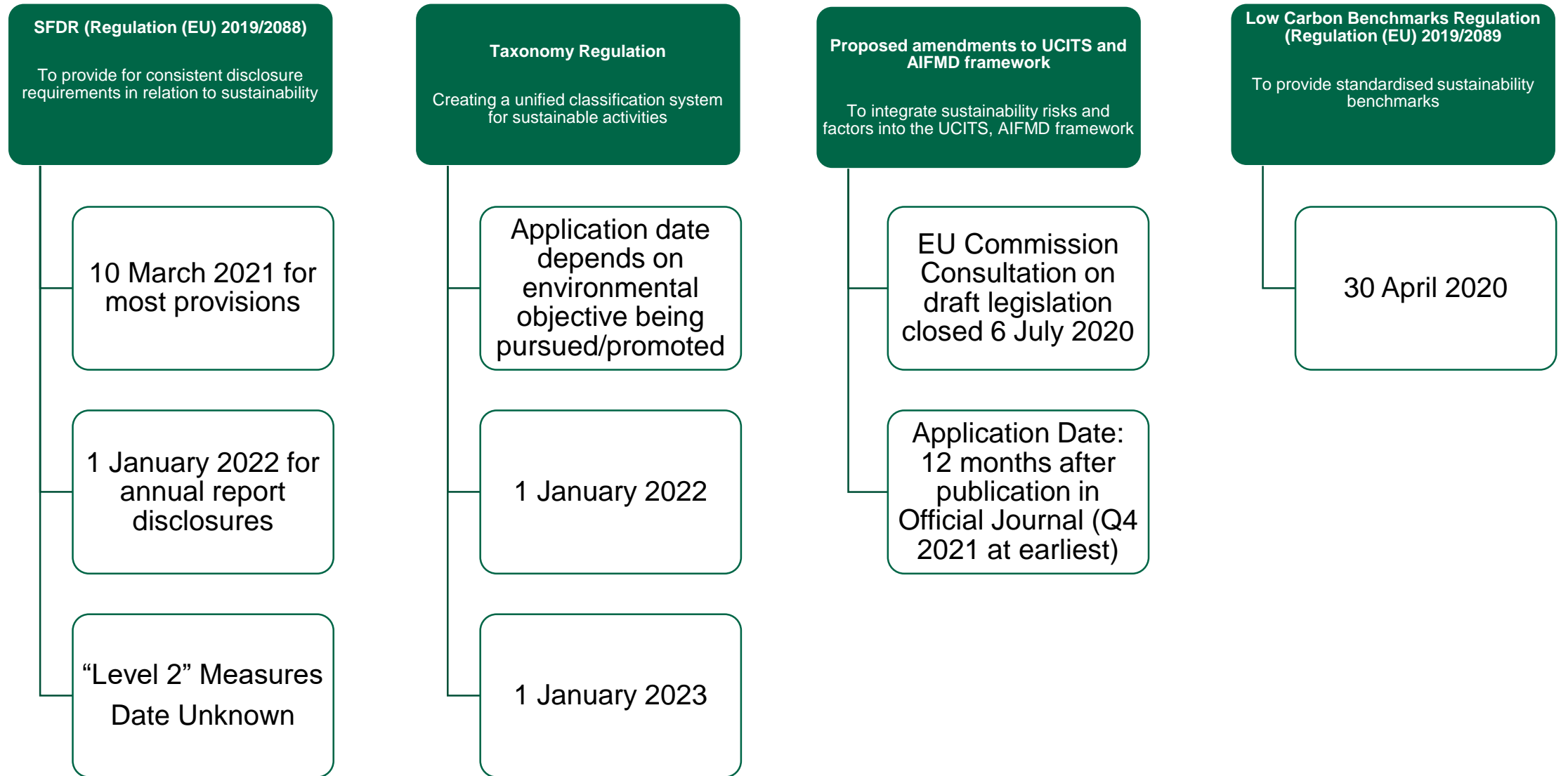
Proposed amendments to UCITS and AIFMD framework

To integrate sustainability risks and factors into the UCITS, AIFMD framework

Low Carbon Benchmarks Regulation (Regulation (EU) 2019/2089)

To provide standardised sustainability benchmarks

EU Sustainable Finance Framework: Key Legislation & Effective Dates



Key Concepts

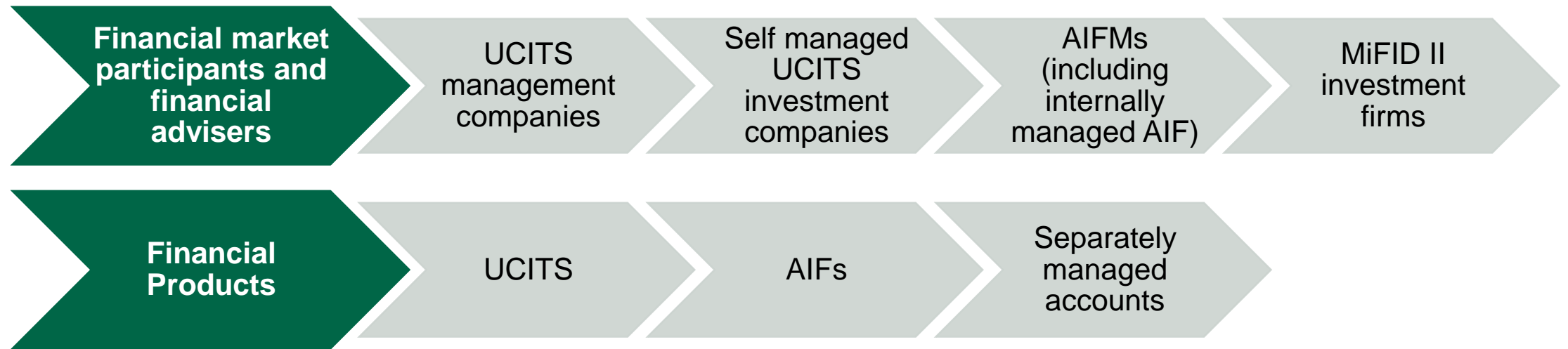
Sustainable Finance: Taking into account (i) environmental, (ii) social and (iii) governance considerations when making investment decisions

Sustainability Risk: “an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential **material** negative impact on the **value** of the investment”.

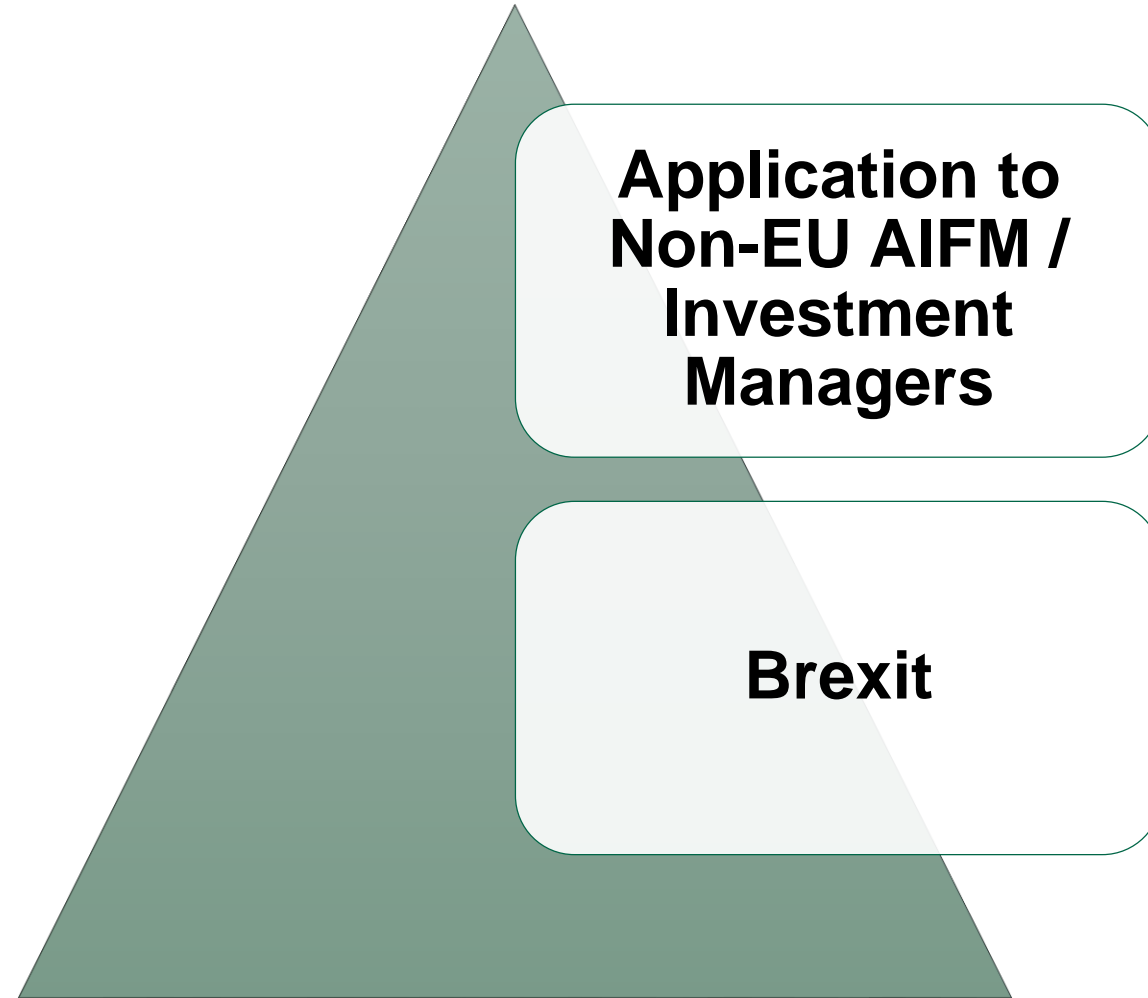
Sustainability Impact: The impact that investment decisions have on sustainability factors

Sustainability Factors: “environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters”

Who is impacted?



Who is impacted



What is an “ESG Fund”?

ESG Funds comprise of :

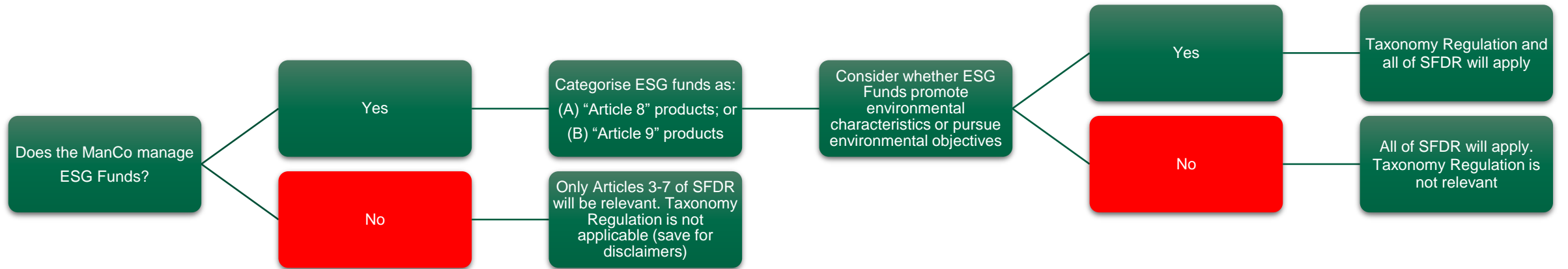
“Light-Green Funds”/ “Article 8 funds”

- Funds that *promote* environmental or social characteristics (although not exclusively) and which invest in companies that follow good governance factors

“Dark-Green Funds”/ “Article 9 funds”

- Funds which have an objective of (i) sustainable investments; or (ii) reducing carbon emissions.

How to Navigate the ESG Framework: Classification Process



Disclosure Regulations: An Overview

Purpose

- To allow investors to understand the environmental and social impact of their investment decisions and help them recognise which investments are sustainable and which are not.

Disclosure obligations impact both the Manager itself and the fund(s) under management

Extent of obligations imposed on Manager will depend on whether or not it manages “ESG funds”

Manager level disclosure: Website

- Policy on integrating sustainability risks into investment decision-making process
- Consideration of impact of investments on sustainability factors (depending on size of Manager)
- Remuneration Policy

Disclosure Regulations: An Overview

Fund level disclosure: Prospectus

- All products
- ESG funds: additional disclosures

Fund level disclosure: Annual Report

- ESG funds must provide additional ESG-related information to investors in their annual report

Marketing Communications

- Managers must ensure that ESG-related information contained in the marketing communications do not contradict the ESG information disclosed to investors via the prospectus / website / annual reports

Taxonomy Regulation: An Overview

Purpose

- To create an EU-wide classification system on which activities qualify as “green” or “sustainable”

Detailed disclosure obligations only arise if the fund in question is an ESG fund and either (i) promotes an environmental characteristic or invests in an economic activity that contributes to an environmental characteristic

Information to be disclosed in the prospectus of an ESG “environmentally sustainable” fund

- Environmental characteristic being contributed to;
- How and to what extent underlying investments are considered to be environmentally sustainable using the criteria set down in the Taxonomy Regulation; and
- Proportion of investments in environmentally sustainable economic activities as a percentage of all investments selected for the fund

Information to be disclosed in annual report of an ESG “environmentally sustainable” fund

- As per prospectus disclosures in respect of the reporting period in question

Non-ESG Funds: Disclaimer to be incorporated into both prospectus and annual report

- *“The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable investments”*

Taxonomy Regulation: What is an environmentally sustainable activity?



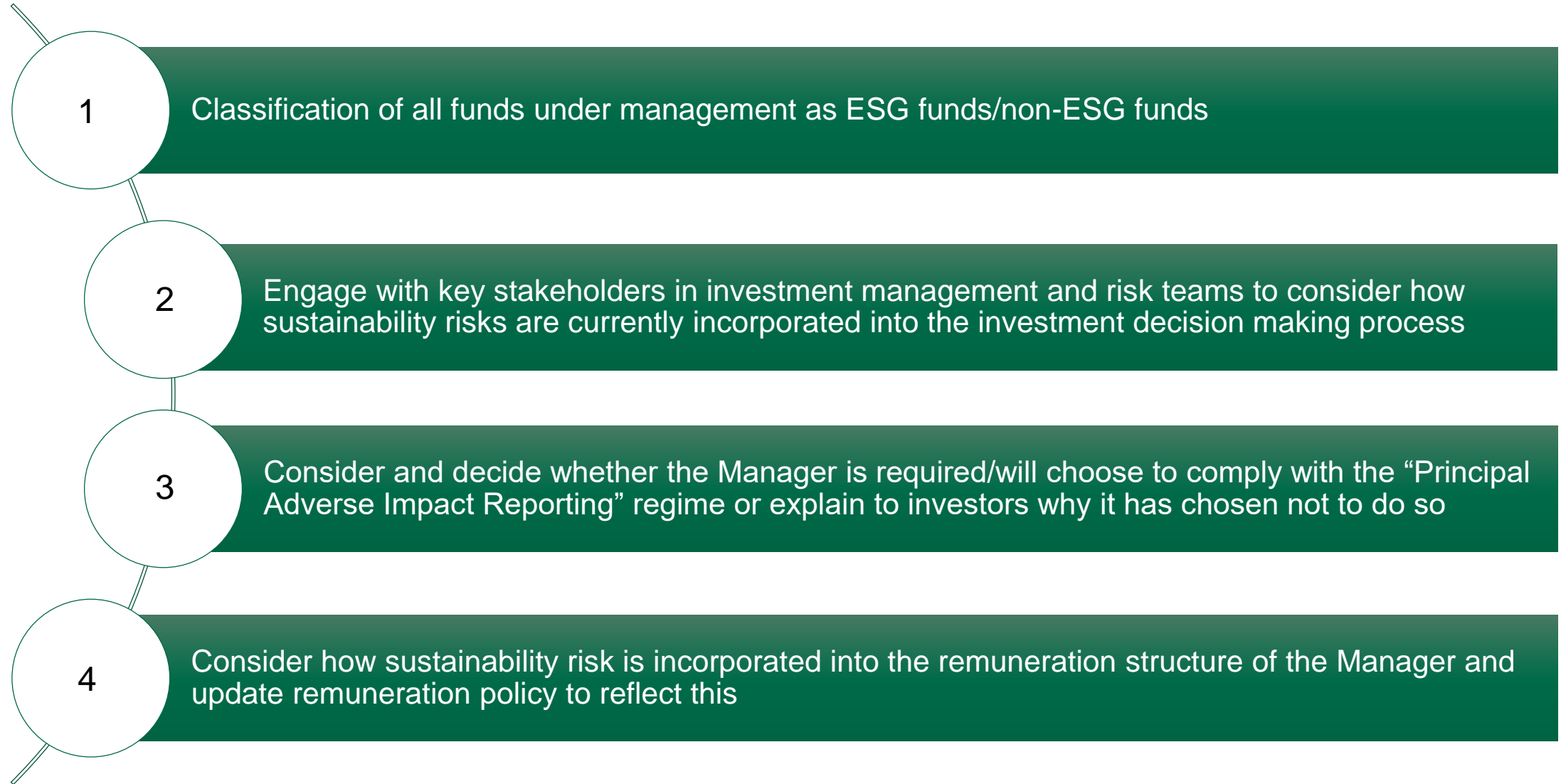


Organisational Requirements

Risk Management

Operating Conditions

Action Points



Questions & Answers

Any questions?



ESG - A Case Study on Implementation

18 November 2:30pm



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