ACCOUNTANCY EUROPE.

Policy update

CMU Policy Update

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European Commission

HLEG on sustainable finance issues its final recommendations – 31 January

The High-Level Expert Group on sustainable finance (HLEG) has published its long-awaited final recommendations on building a EU framework for sustainable finance.

The report overall highlights the urgent need for a long-term policy framework to build a sustainable financial system. It outlines detailed steps for each of the recommendations. The European Commission will subsequently move on to finalise its own strategy on sustainable finance, in part on the basis of HLEG's work. The Commission's sustainable finance strategy is expected for 7 March.

Accounting related recommendations

In its report, HLEG emphasises the role of accounting in the sustainable finance agenda. There are a number of different initiatives on sustainability reporting helping to better integrate ESG factors (for example, NFI Directive). However, the ambition is to have properly integrated financial and non-financial information that would be subject to the same level of audit requirements as financial information is today. Moreover, HLEG is concerned that accounting standards, specifically the new IFRS 9, are potentially challenging for long-term investments, particularly equity investments.

The main recommendations for accounting are the following:

- Update the EU legislation relating to financial statements and related reports to better integrate non-financial information
- Involve EFRAG together with other relevant experts in a research investigating alternative accounting approaches to fair value/mark-to-market valuation for long-term investment. The outcome should be brought back to the IASB afterwards

- Provide the EU with the power to adjust specific aspects of IFRS standards adopted by the IASB before transposing them into EU law (by changing the IAS Regulation on accounting rules in the EU)

Other priority recommendations

- 'Sustainability' taxonomy: a robust classification system to clarify what is 'green', 'sustainable'. The suggestion is to start with climate mitigation. The HLEG proposed a framework for a full sustainability taxonomy as a starting point and developing a full sustainability taxonomy by 2020.
- Clarify institutional investors and asset managers' duties to extend time horizons and bring greater focus to ESG factors. This will require amendments to multiple EU Directives (Institutions for Occupational Retirement Provision, PEPP, Solvency II, MiFID II, and others). In addition, a revision of NFR Directive, Shareholders Rights Directive is suggested to harmonise disclosure requirements
  - HLEG also calls on ESMA to integrate ESG considerations into the development of the technical standards (Level II and III) to the Prospectus Regulation
- Upgrade disclosure requirements to make climate change risks and opportunities fully transparent. The HLEG recommends the EU endorsing TCFD guidelines and implement them at the EU level. In this context:
  - Establish a financial-sector specific Working Group under the supervision of DG FISMA to explore how the NFI Directive's requirements can be better aligned with those of the TCFD
  - Consider the climate-related disclosure frameworks in the NFI Directive's review
- Retail investment: advice and SRI minimum standards. Investment advisers should be required to ask about retail investors' preferences regarding sustainability. Retail funds should be required to disclose clear and understandable information on their sustainability impact
- European sustainable finance standards – first step is the EU green bond standards already in 2018, then consider a EU Green Bond Label. The HLEG proposes a 'framework' for the EU Green Bond standard as a starting point, also indicating the differences from the Green Bond Principles
  - There will be a requirement for the bond verification by an independent and accredited external reviewer
- Sustainable Infrastructure Europe – an entity designed to speed up the development of high-quality projects to meet investors' demands
- Governance & leadership – corporate culture needs to be better aligned with the long-term outlook. The HLEG proposed to:
  - Update internal governance requirements to reflect long-term risks in sector-specific regulations.
  - Extend Stewardship principles for institutional investors (eg amendment of Shareholders Rights Directive)
  - Strengthen director duties re sustainability
- Role of ESAs: clarify the mandate of ESAs, requiring to take ESG factors into account

The HLEG also provides sector-specific recommendations concerning banks, insurance companies, asset managers, pension funds, CRAs, and others. They have included additional recommendations on the social dimension and how to address issues in the agriculture and marine resources as there are also investment gaps around these sustainable development priorities.

Next steps

- 7 March: European Commission is expected to publish its Action Plan on sustainable finance, including regulatory measures
- 22 March: a high level conference will be held to discuss HLEG's final recommendations and the Commission's Action Plan
- 23 May: the Commission is expected to publish further sustainable finance measures, including fiduciary duties and taxonomy

European Parliament

European Parliament publishes summary of ESAs reform – 20 December

The European Parliament has published a helpful summary that provides an overview of the key elements of the Commission's proposed reform of the European Supervisory Authorities (ESAs). The document also criticises the Commission's proposal, since allegedly the proposal's chosen approach to ESAs reform is not in line with the impact assessment that the Commission conducted on the topic earlier.

ECON Committee publishes Working Document on PEPP, first Committee discussion held – 8/11 January

The leading MEP on the file, **Sophia in 't Veld (ALDE/NLD)**, has prepared and published a working document to prepare the ECON Committee's work on the European Commission's proposal for a Pan-European Personal Pension Product (PEPP).

In the working document, Ms. in 't Veld's sets out her first areas for reflection work and takes stock of the main difficulties, ahead of her draft report which is expected to be published within the next few weeks. For further details on the original PEPP proposal, please refer to Accountancy Europe's CMU Policy Update from June 2017.

THE RAPPORTEUR'S AREAS OF MAIN FOCUS

The now-published working document notes broad support for the concept of a PEPP, but emphasises the complexity of its implementation and its particularly sensitive nature, particularly concerning the fiscal treatment of the PEPP. As a reminder, the original Commission proposal only proposed a soft-law recommendation for member states, calling on them to grant PEPP the same tax treatment as the most generous one granted to similar national pension products.

The rapporteur acknowledges that it would be unlikely for all 28 member states to unanimously agree on PEPP's fiscal treatment (NB in EU decision-making, tax related proposals are subject to unanimity agreement of all member states). However, she recommends either for a smaller group of member states to voluntarily move ahead with a standardized tax treatment of PEPP, or to establish a separate "29th regime" to co-exist with national tax regimes, that member states may choose to opt for.

The working document also covers portability. PEPP can be transferred between member states with no requirement to change the provider, through 'national compartments'. The Commission proposes a deadline of three years for these compartments to be set in place after the regulation enters into force. Ms. in 't Veld feels, however, that a deadline would constitute a major obstacle to small regional providers, which would be unable to bear the costs. Instead, she proposes to establish partnerships between providers in different member states. The number of compartments provided in the contract would then be binding on the providers.

Another major problem identified by the rapporteur is the proposed default guarantee option. The Commission proposes that savers could choose from five investment options, including a default investment option guaranteeing that they will get back at least the capital invested, thanks to risk attenuation techniques. Instead, the rapporteur feels that a simpler default option should be proposed. One option would be to have two default options: one providing a capital guarantee, the other a life-cycle investment strategy. Alternatively, the two could be combined, the rapporteur suggests.

ECON Committee holds first hearing on PEPP

On the same week as the working document was published, the ECON Committee held its first exchange of views on the Commission proposal. The debate shed some light into what the main points of contention at the European Parliament will be, and what will be the respective positions of the different political Groups.

All political Groups welcomed the above-mentioned working document, seeing it as a good basis for further work. Most MEPs in the room agreed with the Commission's call on member states to grant PEPP the same tax treatment as to similar national products. Most MEPs also agreed with the rapporteur on portability, seeing the Commission's proposal as something that could be particularly costly for smaller providers. The rapporteur's alternative proposal for establishing two default options received quite some support, especially the largest Group EPP. Finally, the rapporteur for the Greens, **Bas Eickhout (Greens-EFA/NLD)**, emphasised that the proposal should take ESG risks better into account.

Next steps

Ms. in 't Veld will present her draft report on 21 or 22 February, and an ECON Committee vote is likely to take place in June.

The European Parliament legislates together and on an equal footing with member states in the Council. Both institutions will first, in the coming weeks and months, develop their respective positions on the original Commission proposal. They will then have to find a mutually agreeable compromise, before the proposal can become EU law. This process is likely to take several months at least.

Other News

PensionsEurope publishes opinion on PEPP – 26 January

PensionsEurope has published its opinion on the Commission's proposal for a Pan-European Personal Pension Product (PEPP).

On portability, PensionsEurope resonates with the views expressed by the European Parliament (see article above). It sees the Commission's proposal for national compartments as too significant a burden for PEPP providers, and calls for alternative solutions. With regard to PEPP disclosures, PensionsEurope feels that any information requirement should be tailored to the specific nature of a PEPP. Therefore, the PEPP Regulation should include a precise list of relevant information for savers. PensionsEurope has included in its opinion an annex with proposals on the information to be included in the PEPP Key Information Document and in the PEPP Benefit Statement.

The opinion also covers views on, notably, PEPP authorisation, providers, the distribution regime and the different investment options, amongst others.

FESE publishes European Capital Markets factsheet – 30 January

The Federation of European Stock Exchanges (FESE) has published for the first time a European capital markets factsheet.

The factsheet is based on FESE's monthly statistics, and it highlights the main developments in the European capital markets in a simple-to-view format. This first edition focuses on a comparison between years 2016 and 2017 and Q3-Q4 of year 2017. Subsequent factsheet will be produced on a quarterly basis, the next one appearing in April 2018.

MEP Questions & Answers

Fintech development in the EU after Brexit – 26 October

The European Commission has replied to a question asked by the MEP **Dimitrios Papadimoulis (GRE/GUE-NGL)** with regard to FinTech after Brexit.

In his question, Mr. Papadimoulis points out that a large chunk of Europe's FinTech industry is mainly based in the UK. Therefore, he asks the Commission how it plans to counterweight the consequences of Brexit and dynamically claim a share in the FinTech industry.

In his reply, **Vice-President Dombrovskis** confirms the Commission's intention to present a Communication on FinTech at the beginning of 2018 (NB most likely on 7 March). The Communication will set out EU level initiatives to support technological innovation in finance, while also addressing risks such innovation may present. The Commission expects this Communication to focus on issues such as initiatives supervisors could take to support technological innovation in finance, through innovation facilitation functions or regulatory sandboxes, transformative technologies, cybersecurity, and the clarification and convergence of licensing and supervisory requirements and practices for technology-enabled financial services.

Events

- 07/02/2018, ***Capital markets summit 2018***, Politico, Paris. Source
- 14/03/2018, ***Revitalising the European Agenda on SMEs***, Public Policy Exchange, Brussels. Source
- 19/06/2018, ***Digital Day – Opportunities in innovation***, Accountancy Europe, Brussels. Source