

ALLEN & OVERY

The new Sustainable Finance Framework

Holland FINTECH

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Agenda

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Sustainable Finance – General context

2

Overview of drivers for complexities

- Overview of complex law making process
- No single act – instead sustainability rules are scattered around different areas of law
- Timing is not aligned
- Many of these acts contain different approaches and many of them are interconnected

3

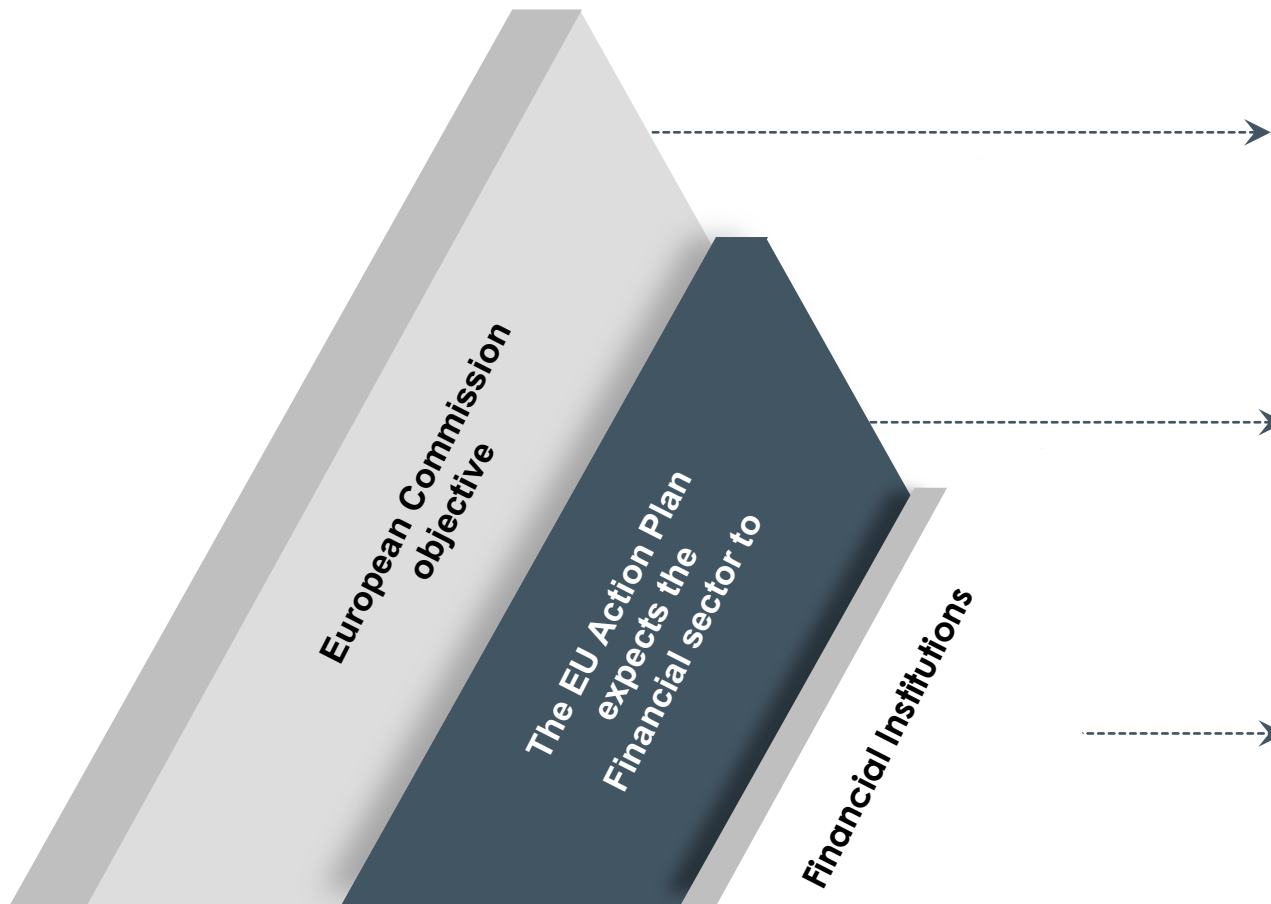
How can RegTech support with the complexities?

- Demo

Sustainable Finance – General context

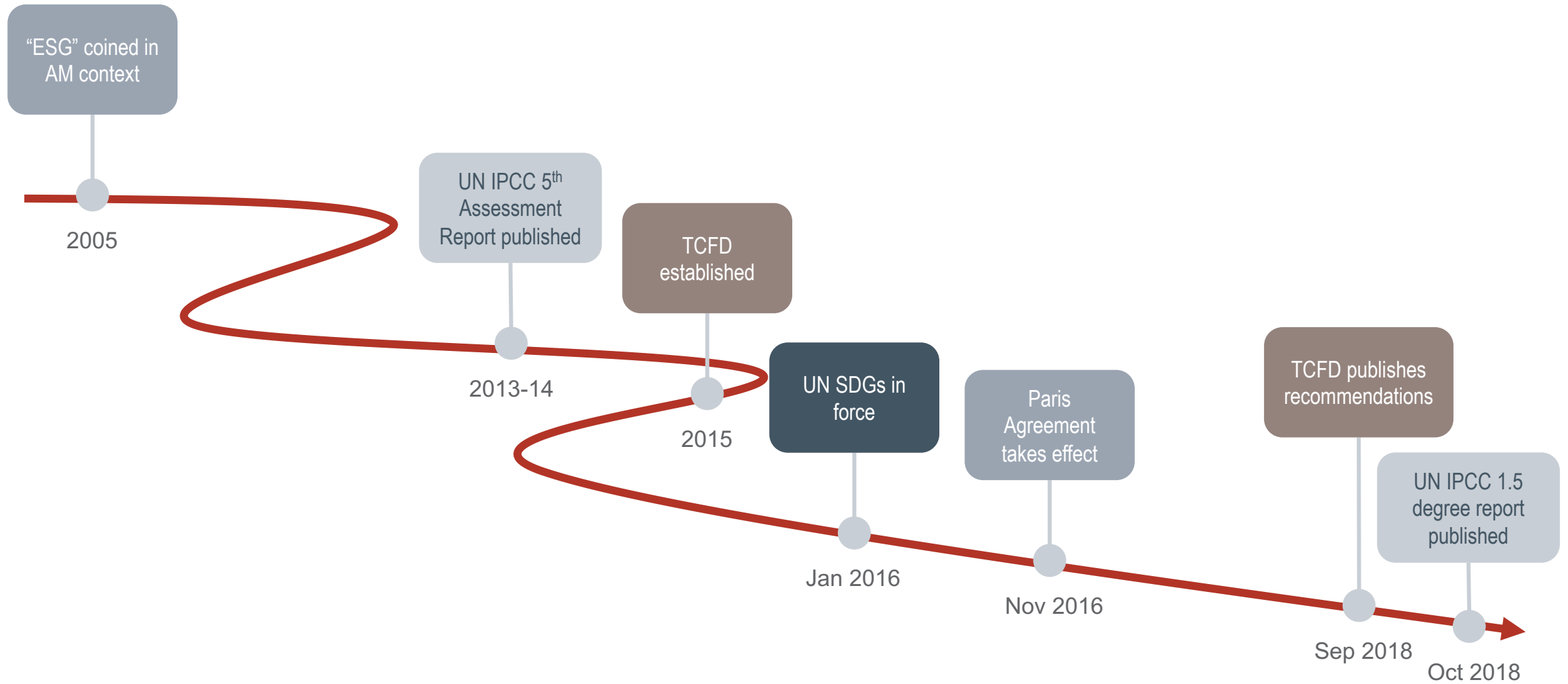


What are the sustainable finance expectations in Europe?

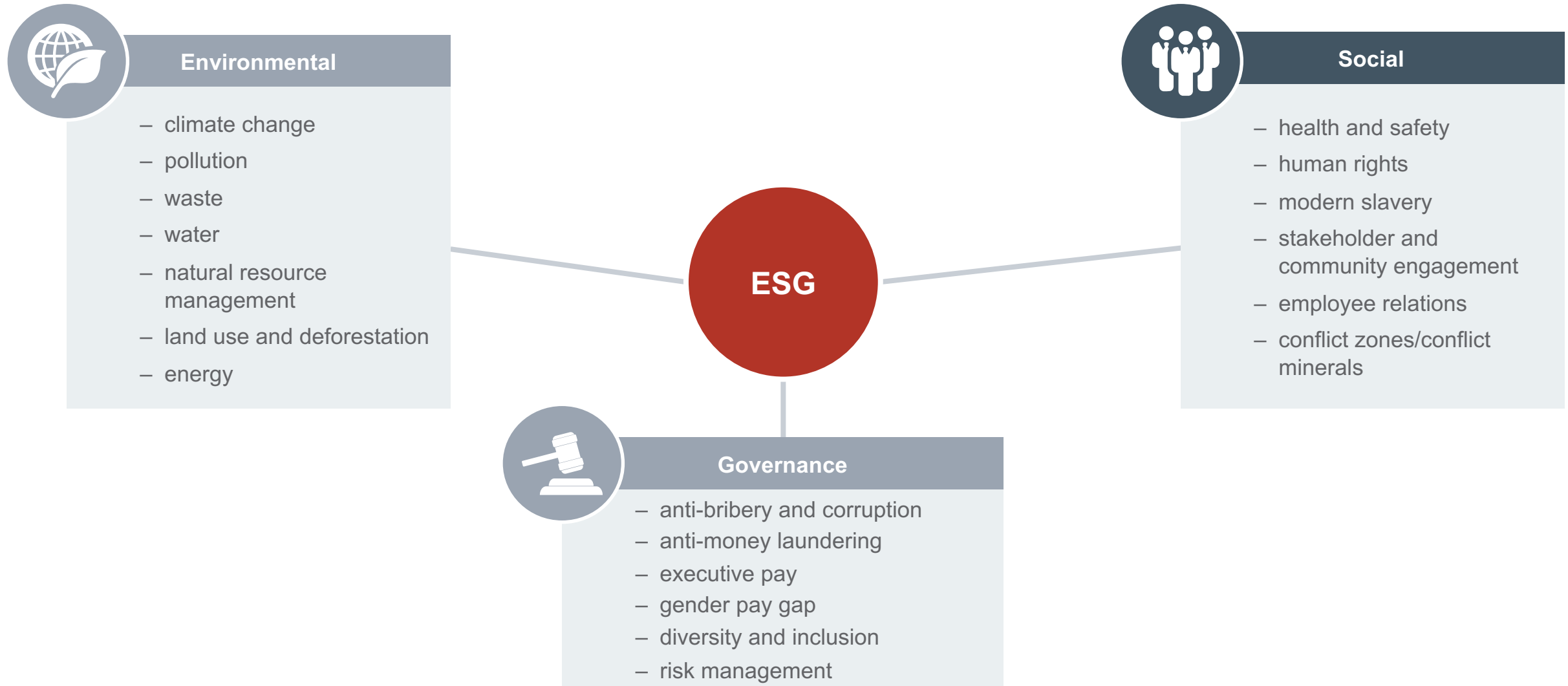


- Sustainable Finance has a key role to play in mobilising the necessary capital to deliver on the policy objectives under the European Green Deal as well as the EU's international commitments on climate and sustainability objective
- It helps ensure that investments support a resilient economy and a sustainable recovery from the impacts of the COVID-19 pandemic
- Re-orient investments towards more sustainable technologies and businesses
- Finance growth in a sustainable manner over the long-term
- Contribute to the creation of a low-carbon, climate resilient and circular economy.
- **Define a strategic opinion on sustainable finance, ensure compliancy and organise for business opportunities**

Drivers for rise of sustainability/ESG



Sustainable Finance - General context



Overview of drivers for complexity



Overview of reasons for high level of complexity

1 The “usual” combination of different levels of lawmaking within the EU and its Member States

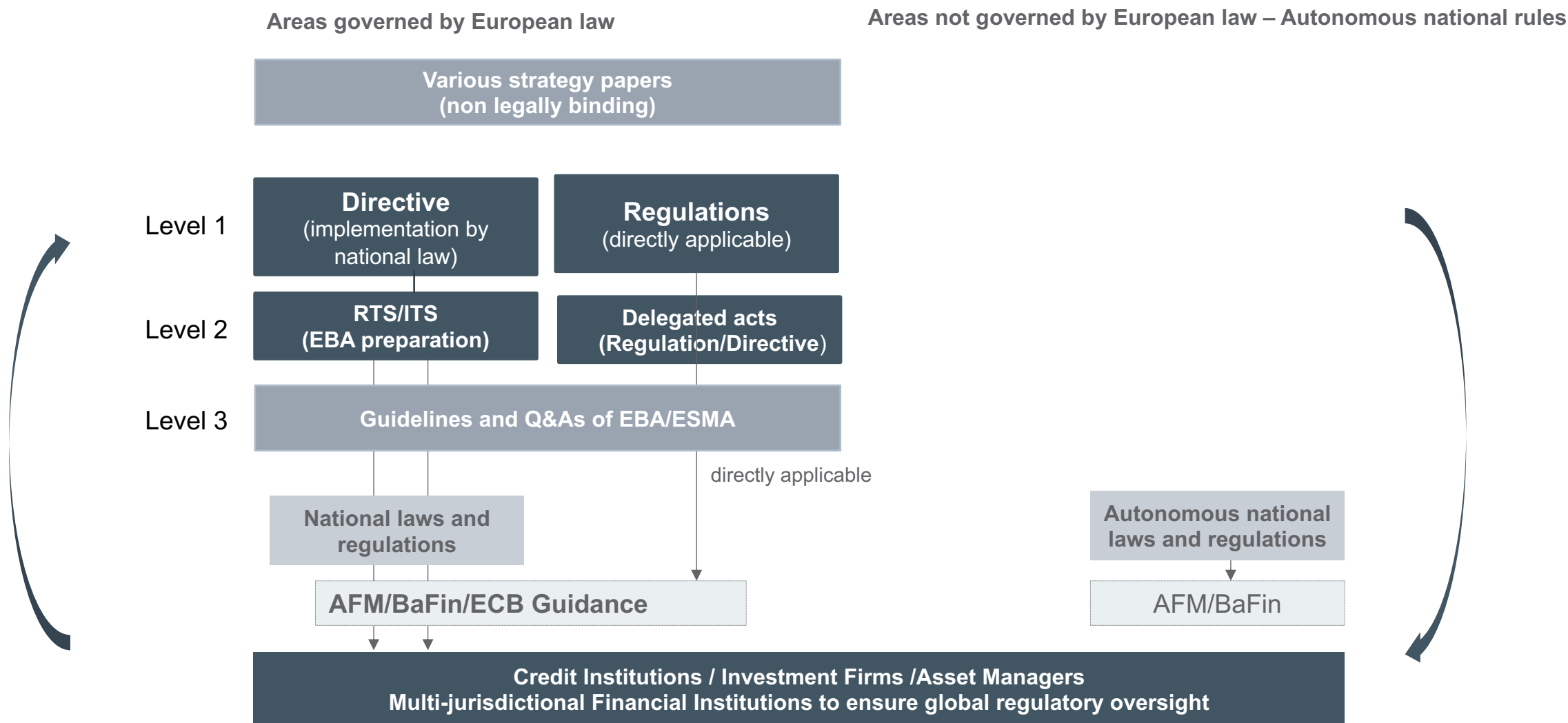
2 No single act – instead sustainability rules are scattered around different areas of law

3 Timing is not aligned

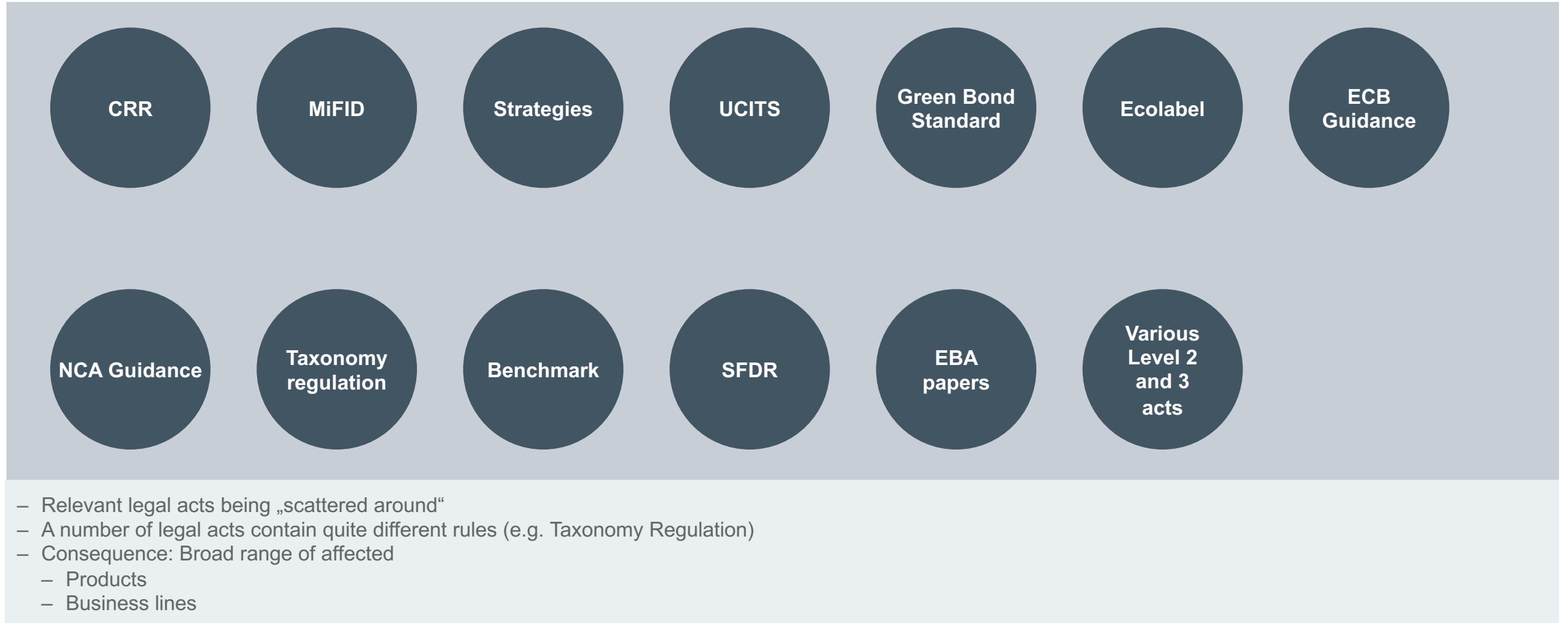
4 Many of these acts contain different approaches and many of them are interconnected

5 Uncertainty regarding what is relevant for whom and when

The starting point for complexity: the European law making approach



The variety of affected areas of law, products and business lines...



.. and how everything fits together

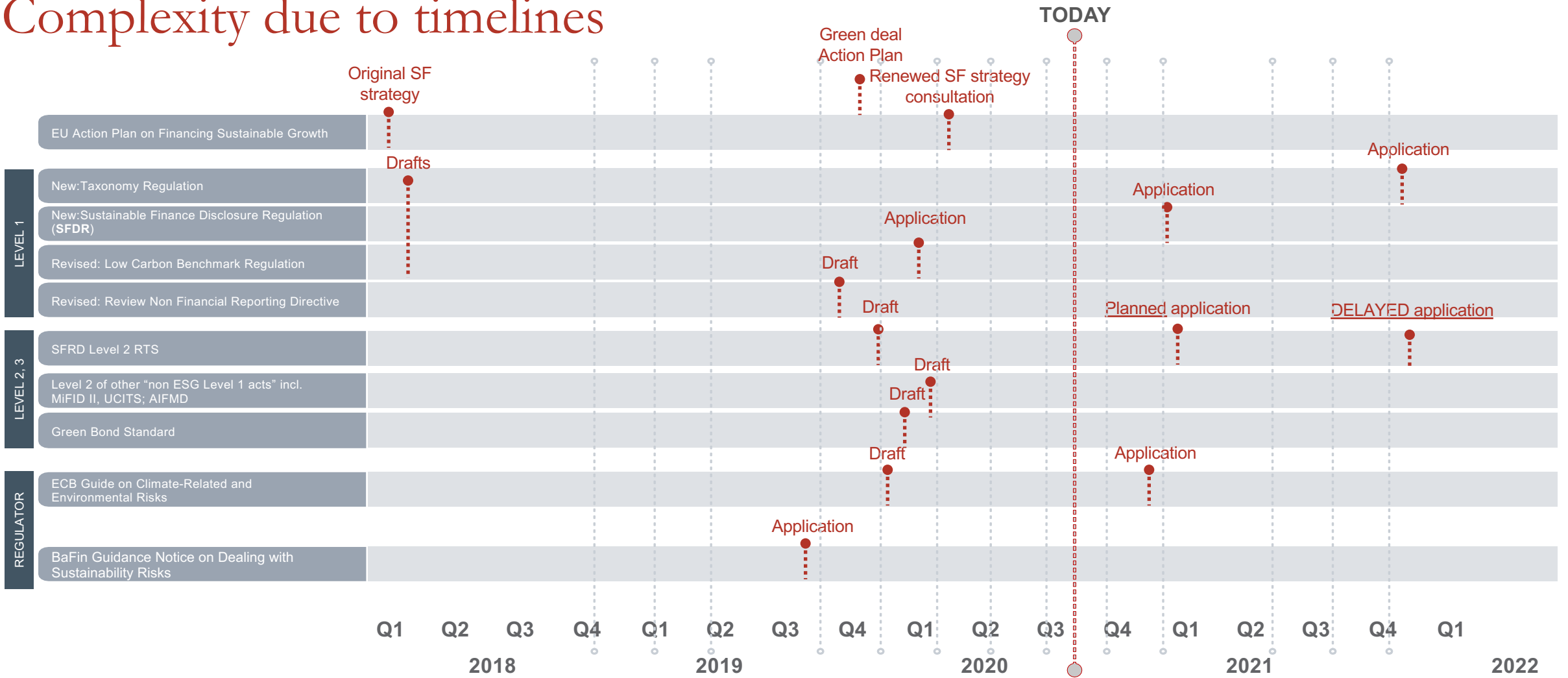
Rules on

- Disclosure
 - On entity level: Parts of the SFDR
 - On product level: Other parts of the SFDR
- Conduct / governance: Level 2 acts for MiFID II; UCITS, IDD and AIFMD
- Benchmark specific: Benchmark Regulation
- Standard setting / capital markets: Green bond standard
- Prudential perspective
 - CRR: Very few provisions
 - EBA:
 - Guidance by regulators: BaFin, ECB



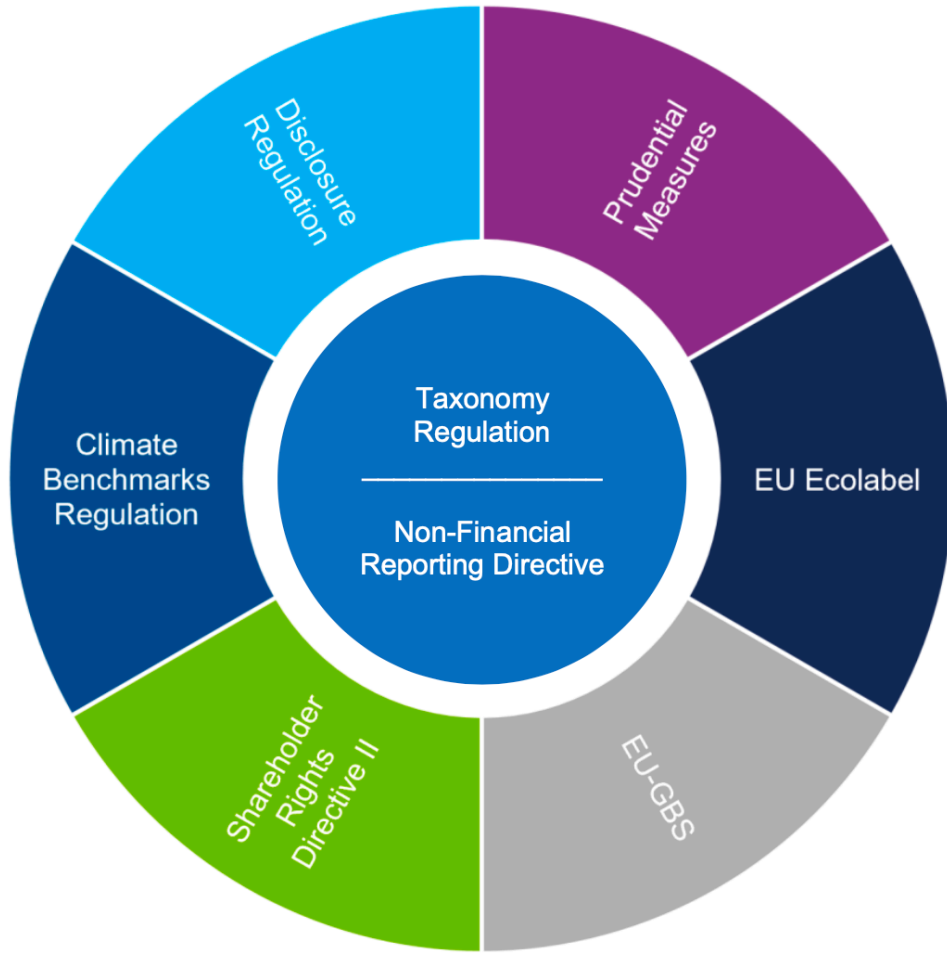
Common taxonomy:
Taxonomy Regulation

Complexity due to timelines



- Various acts are themselves only loosely coordinated as regards timing
- Dynamic development on each level: staggered implementation deadlines and staggered level 2 and 3
- Delays in certain level 2 acts require „forth and back“

Complexity due to interdependencies



- Taxonomy Regulation defines terms which are used in other contexts
- Various acts require product specific disclosures
 - SFDR
 - Taxonomy Regulation
 - MiFID level 2 acts
 - Benchmark Regulation
- Product governance rules established by different acts

First strategic insights for the business considering the new legislation?

Strategic level	Considerations
Financial institution sustainable strategy	What is your ambition? <ul style="list-style-type: none">• Investors and other stakeholders check out various benchmarks to gain insight into the bank's / asset manager's sustainability efforts• Do you understand the consequences of a non-sustainable strategy on for example your cost of funding / growth potential?
Investment Policy / Asset allocation considerations	In case you want to grow your sustainable asset base <ul style="list-style-type: none">• Adhere to the Sustainable Disclosure Regulation in external communication• The word "Sustainable" may no longer be used to market financial products unless the guidelines of the EU classification system are adhere• Integrate EU classification system in the investment policies / product approval process to enable conducting sustainable investment decisions• Advice to private clients must in future include sustainability considerations• Reporting and client communication needs to be geared towards sustainability Non sustainable assets could be subject to physical and transition risks and could be considered "stranded assets" <ul style="list-style-type: none">• Stranded assets are assets that lose unanticipated or pre-mature value as a result of the transition to a low-carbon economy. Some of the risk drivers include new regulations, falling costs for renewables, changing social mores, and litigation• Stranded assets could lead to increased loan impairments
Enablers	<ul style="list-style-type: none">• Consider your marketing & communication strategy• Ensure availability of quality IT, Organization and ESG expertise capabilities• Ensure tooling to monitor and evidence regulatory compliance and explain your interpretations on these dynamic regulations internally and to supervisors

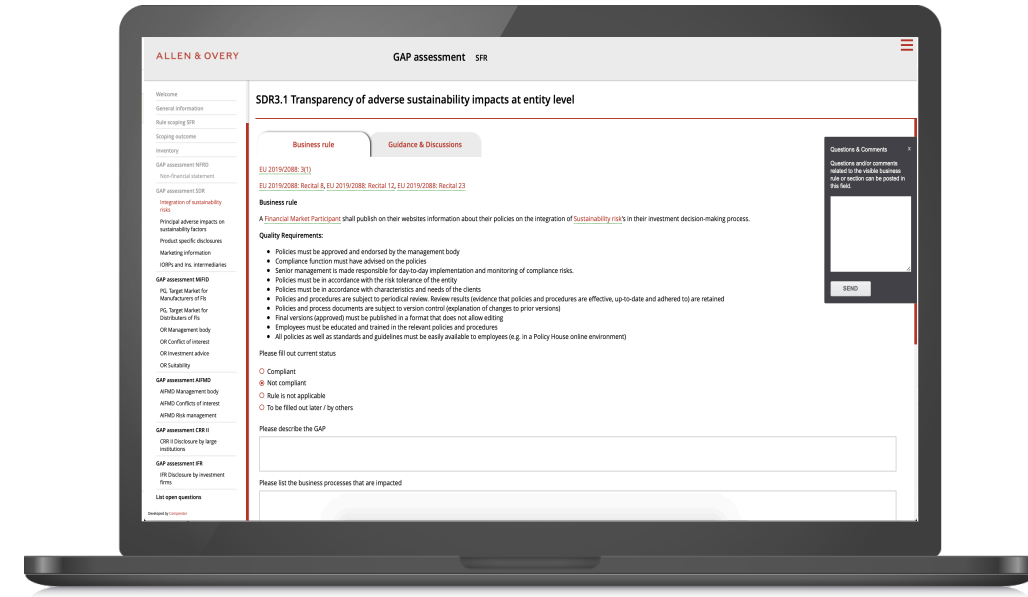
How can RegTech support?

DEMO

Our demo will clarify how we help to efficiently and consistently implement and keep up-to-date the *Sustainable Finance Framework* at your organization.

We will showcase how our ESG RegTech assistant helps with:

1. Continuous and systematic screening for legal developments
2. Managing the complex interlinkage between Sustainable Finance and MiFID II/AIFM/UCITS/CRD5/IFM
3. Integrating EU wide best practices and your internal policies
4. Closing gaps, status tracking and audit trail / evidencing



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