

Low carbon benchmarks and positive carbon impact benchmarks

2018/0180(COD) - 09/12/2019 - Final act

PURPOSE: to channel capital flows towards sustainable investments by introducing a new category of financial benchmarks to provide more information on the carbon footprint of an investment portfolio.

LEGISLATIVE ACT: Regulation (EU) 2019/2089 of the European Parliament and of the Council amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks.

CONTENT: an increasing number of investors are pursuing low-carbon investment strategies and using low-carbon benchmarks to measure the performance of investment portfolios. However, there is currently a wide range of low-carbon benchmarks, with different objectives, quality and integrity.

Reorienting capital flows towards sustainable investments

This Regulation introduces into the [Benchmarks Regulation \(EU\) 2016/1011](#) the definitions of new categories of financial benchmarks to provide more information on the carbon footprint of an investment portfolio.

In line with the Paris Agreement on Climate Change and the UN 2030 Sustainable Development Agenda, the amending Regulation is part of a broader initiative to redirect capital flows towards sustainable investments. It lays the foundations for a European framework that places environmental, social and governance (ESG) criteria at the heart of the financial system.

Benchmarks

The amending Regulation lays down minimum requirements at Union level for the Union's climate transition benchmarks and the Union's Paris agreement benchmarks:

- ***the EU Climate Transition benchmark*** aims to reduce the carbon footprint of a standard investment portfolio. It shall be an index whose underlying assets will be selected, weighted or excluded in such a way that the resulting benchmark portfolio is on a measurable and science-based decarbonation path by the end of 2022, in the light of the long-term global warming objective of the Paris Accord;

- ***the Paris Agreement benchmark*** shall have the more ambitious objective of selecting only those components that contribute to the 2°C limit on global warming set out in the Paris Climate Agreement.

These two benchmarks are not expected to significantly compromise other environmental, social and governance (ESG) objectives. They should also be constituted in accordance with the minimum standards laid down in delegated acts.

By 1 January 2022 at the latest, providers of significant benchmarks in the Union should endeavour to market one or more EU Climate Transition and Paris Agreement benchmarks.

Investor information

Under the Regulation, the benchmarks administrators shall be required to:

- publish detailed information on whether or not and to what extent a degree of overall alignment with the target of reducing carbon emissions or the attainment of the objectives of the Paris Agreement is ensured;
- publish the methodology they use to calculate the benchmarks, describing how the underlying assets were selected and weighted and indicating which assets were excluded and why;
- specify how the carbon emissions of the underlying assets have been measured, their respective values, including the total carbon footprint of the benchmark index, as well as the type of data used and their source.

In order to enable asset managers to select the most appropriate benchmark for their investment strategy, benchmark administrators shall explain the logic behind the parameters of their methodology and explain how the benchmark contributes to environmental objectives. The published information shall also include indications on the periodicity of the reviews and the procedure followed.

Lastly, the text revises the existing provisions of the Benchmarks Regulation by providing for an extension of the transitional arrangements for critical benchmarks and third country benchmarks until the end of 2021.

Reports

Before 31 December 2022, the Commission shall report on the impact of this Regulation and the feasibility of ESG benchmarks, taking into account the evolving nature of sustainability indicators and the methods used to measure them. This report shall be accompanied, if appropriate, by a legislative proposal.

No later than 1 April 2020, the Commission shall report on the impact of the Regulation on the functioning of third-country benchmarks in the Union, including the use of endorsement, recognition or equivalence by administrators of third-country benchmarks, and potential shortcomings of the current framework.

ENTRY INTO FORCE: 10.12.2019.