Procedure file

Basic information

COD - Ordinary legislative procedure (ex-codecision procedure) Regulation	2018/0180(COD)	Procedure completed
Low carbon benchmarks and positive carbon impact benchmarks Amending Regulation (EU) 2016/1011 2013/0314(COD) See also 2018/0178(COD) See also 2018/0179(COD) Subject 2.50.03 Securities and financial markets, stock exchange, CIUTS, investments 3.70.20 Sustainable development		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		31/05/2018
		S&D GILL Neena	
		Shadow rapporteur	
		epp SANDER Anne	
		ECR KAMALL Syed	
		WIERINCK Lieve	
		SCOTT CATO Molly	
		ENF KAPPEL Barbara	
	Committee for opinion	Rapporteur for opinion	Appointed
	ENVI Environment, Public Health and Food Safety		21/06/2018
		epp VĂLEAN Adina	
	ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	3725	08/11/2019
European Commission	Commission DG	Commissioner	
	Financial Stability, Financial Services and Capital Markets Union	DOMBROVSKIS Valdis	

European Economic and Social Committee

Key events

24/05/2018	Legislative proposal published	COM(2018)0355	Summary
05/07/2018	Committee referral announced in Parliament, 1st reading		
13/12/2018	Vote in committee, 1st reading		
13/12/2018	Committee decision to open interinstitutional negotiations with report adopted in committee		
20/12/2018	Committee report tabled for plenary, 1st reading	A8-0483/2018	Summary
14/01/2019	Committee decision to enter into interinstitutional negotiations announced in plenary (Rule 71)		
16/01/2019	Committee decision to enter into interinstitutional negotiations confirmed by plenary (Rule 71)		
21/03/2019	Approval in committee of the text agreed at 1st reading interinstitutional negotiations	PE637.212 GEDA/A/(2019)002494	
26/03/2019	Results of vote in Parliament		
26/03/2019	Decision by Parliament, 1st reading	T8-0237/2019	Summary
08/11/2019	Act adopted by Council after Parliament's 1st reading		
25/11/2019	End of procedure in Parliament		
27/11/2019	Final act signed		
09/12/2019	Final act published in Official Journal		

Technical information

Procedure reference	2018/0180(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
	Amending Regulation (EU) 2016/1011 2013/0314(COD) See also 2018/0178(COD) See also 2018/0179(COD)
Legal basis	Treaty on the Functioning of the EU TFEU 114
Other legal basis	Rules of Procedure EP 165
Mandatory consultation of other institutions	European Economic and Social Committee
Stage reached in procedure	Procedure completed
Committee dossier	ECON/8/13233

Documentation gateway

Legislative proposal		COM(2018)0355	24/05/2018	EC	Summary
Document attached to the procedure		SWD(2018)0264	24/05/2018	EC	
Document attached to the procedure		SWD(2018)0265	24/05/2018	EC	
Committee draft report		PE628.440	28/09/2018	EP	
Economic and Social Committee: opinion, report		CES2767/2018	17/10/2018	ESC	
Amendments tabled in committee		PE629.650	29/10/2018	EP	
Committee opinion	ENVI	PE630.616	22/11/2018	EP	
Committee report tabled for plenary, 1st reading/single reading		A8-0483/2018	20/12/2018	EP	Summary
Coreper letter confirming interinstitutional agreement		GEDA/A/(2019)002494	13/03/2019	CSL	
Text agreed during interinstitutional negotiations		PE637.212	13/03/2019	EP	
Text adopted by Parliament, 1st reading/single reading		T8-0237/2019	26/03/2019	EP	Summary
Commission response to text adopted in plenary		SP(2019)437	30/07/2019	EC	
Draft final act		00090/2019/LEX	27/11/2019	CSL	

Additional information

Research document	Briefing

Final act

Regulation 2019/2089
OJ L 317 09.12.2019, p. 0017 Summary

Low carbon benchmarks and positive carbon impact benchmarks

PURPOSE: to amend Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: sustainability and the transition to a low-carbon and climate resilient, more resource-efficient and circular economy are key in ensuring long-term competitiveness of the Union economy.

In March 2018, the Commission published its action plan 'Financing Sustainable Growth', setting up an ambitious and comprehensive strategy on sustainable finance. One of the objectives of that action plan is to reorient capital flows towards sustainable investment to achieve sustainable and inclusive growth.

In line with the Paris Climate Agreement and the 2030 UN Sustainable Development Agenda, this proposal is part of a broader Commission initiative to facilitate investment in sustainable projects and assets across the European Union.

Regulation (EU) 2016/1011 of the European Parliament and of the Council establishes uniform rules for benchmarks in the Union and caters for different types of benchmark.
By introducing new categories of low carbon or positive carbon impact benchmarks, this proposal aims to help investors compare the carbon footprint of investments.

The proposal is being presented in parallel with a proposal to bring institutional investors to integrate environmental, social and governance (ESG) criteria into their internal processes and to inform their clients.

IMPACT ASSESSMENT: the preferred approach provides for the adoption of a new framework establishing minimum standards for the harmonisation of the methodology to be applied to the low carbon or positive carbon impact benchmarks.

The use of EU harmonised standards for transparent methodologies would result in the development of benchmarks which would be better suited to measuring the performance of a portfolio or financial product that either follows a low-carbon or the 2^0C objective investment strategy, respectively.

In terms of environmental impacts, it will relatively quickly redirect financing into assets and projects with sustainable goals that have a positive impact in terms of greenhouse gas emissions and contribute to the objectives of the Paris Climate Agreement.

CONTENT: Regulation (EU) 2016/1011 of the European Parliament and of the Council establishes uniform rules for benchmarks in the Union and caters for different types of benchmark.

The proposal establishes a number of minimum key elements of the methodology used to determine decarbonised benchmarks and positive carbon impact benchmarks, providing standards for the criteria and methods used to select and weight the underlying assets of the benchmark, and to calculate the carbon footprint and carbon savings associated.

These new market standards should reflect the carbon footprint of companies and provide more information to investors about the carbon footprint of an investment portfolio.

To enable market players to make well-informed choices, benchmark administrators should be required to disclose how their methodology takes into account the ESG factors for each benchmark or family of benchmarks that is promoted as pursuing ESG objectives. That information should also be disclosed in the benchmark statement.

Moreover, administrators of low-carbon and of positive carbon impact benchmarks should equally publish their methodology used for their calculation. That information should describe how the underlying assets were selected and weighted and which assets were excluded and for what reason.

Low carbon benchmarks and positive carbon impact benchmarks

The Committee on Economic and Monetary Affairs adopted the report by Neena GILL (S&D, UK) on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks.

As a reminder, the proposal 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.

The committee recommended that the European Parliament's position adopted at first reading under the ordinary legislative procedure should amend the Commission's proposal as follows.

Reference indices

The proposed Regulation shall introduce into Regulation (EU) 2016/1011 on indices used as benchmarks the definitions of the new categories of reference indices, namely the climate transition and Paris Agreement benchmarks.
(1) Climate transition benchmark shall meet all of the following minimum requirements:

- the asset issuers emissions reduction plans must include measurable time-based targets that are robust and evidence-based;

- the companies responsible for the underlying assets must have in place detailed emissions reduction plans that are disaggregated down to the level of individual operating subsidiaries;

- the asset issuers must report annually on the progress made towards these targets;

- the activities of the underlying assets must not significantly harm other ESG objectives.

(2) Paris-aligned benchmark shall be a benchmark that is labelled as a Paris-aligned benchmark where the underlying assets are selected on the basis that the resulting benchmark portfolios carbon emissions are aligned with the 1.5°C Paris Climate Agreement commitment and which is also constructed in accordance with the minimum standards, and in which the underlying asset portfolio is not exposed to companies engaged in any of the following economic activities:

- the exploration, extraction, distribution and processing of fossil fuels;

- the construction and maintenance of power plants that burn fossil fuels. The activities of the underlying assets shall not significantly harm other ESG objectives.

Such benchmarks should not significantly harm other environmental, social and governance (ESG) objectives, in particular when defined by a Union-wide framework to facilitate sustainable investment based on harmonised indicators and criteria.

By 1 January 2022 benchmark providers in the Union shall endeavour to market one or more Paris aligned benchmark and that benchmark will be regulated as a significant benchmark. That benchmark will be regulated as a significant benchmark.

Investor information

To enable market players to make well-informed choices, benchmark administrators shall be required to disclose in the benchmark statement, whether or not their benchmarks or families of benchmarks, pursue ESG objectives, and whether or not the benchmark administrator offers such benchmarks.

For significant equity and bond benchmarks, as well as for climate transition and Paris-aligned benchmarks, the benchmark administrator shall publish detailed information on whether or not and to what extent an overall degree of alignment with the target of reducing carbon emissions and/or, attaining the goals of the Paris Climate Agreement, is ensured.

An impact assessment shall be carried out by the Commission to determine the feasibility for all benchmarks or families of benchmarks to

include a detailed explanation of how the target of the carbon emission and/or attaining the goals of the Paris Climate Agreement is ensured.

Low carbon benchmarks and positive carbon impact benchmarks

The European Parliament adopted by 579 votes to 40 with 42 abstentions a legislative resolution on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks.

To recap, the proposal 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.

The position of the European Parliament adopted at first reading under the ordinary legislative procedure has amended the Commission proposal as follows:

Benchmark indices

The proposed regulation would introduce into Regulation (EU) 2016/1011 on reference indices the definitions of the new categories of reference indices, namely the climate transition and Paris Agreement-aligned indices.

(1) The Climate Transition Benchmark would be an index whose underlying assets would be selected, weighted or excluded such that the resulting benchmark portfolio is on a decarbonation path.

Suppliers of EU climate transition benchmarks should select, weight or exclude underlying assets issued by companies that are on a decarbonation path by 31 December 2022 at the latest, in accordance with the following requirements

- companies report measurable and time-bound targets for reducing carbon emissions;

- companies report a reduction in carbon emissions broken down to the level of the operating subsidiaries concerned;

- companies publish annual information on progress towards these objectives.

(2) The Paris-aligned Benchmark would be an index whose underlying assets are selected in such a way that the resulting carbon emission reductions in the benchmark portfolio are aligned with the Paris Climate Agreement's long-term global warming target objective.

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

In order to inform investors of the degree of compliance with the Paris Climate Agreement, both for major equity and bond benchmarks and for the EU Climate Transition and EU Paris Agreement benchmarks, the administrator of a benchmark index should publish detailed information indicating whether and to what extent an overall degree of alignment with the objective of reducing carbon emissions or achieving the Paris Climate Agreement's long-term global warming limitation targets is ensured.

By 31 December 2021, all benchmarks or families of benchmarks, with the exception of currency and interest rate benchmarks, should, in their benchmark statement, include an explanation of how their methodology aligns with the target of carbon emission reductions or attains the long-term global warming target of the Paris Climate Agreement.

Review and report

By 31 December 2022 at the latest, the Commission would review the minimum standards for benchmarks to ensure that the selection of underlying assets is compatible with environmentally sustainable investments, as defined by an EU-wide framework.

Before 31 December 2022, the Commission should submit a report on the impact of the 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 would be accompanied, if necessary, by a legislative proposal.

Low carbon benchmarks and positive carbon impact benchmarks

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.